AMERICAN CAMPUS COMMUNITIES INC
Form DEF 14A
March 20, 2019

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No. )
Filed by the Registrant ý
Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement
¨ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
ý Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to § 240.14a-12

AMERICAN CAMPUS COMMUNITIES, INC.

(Name of Registrant as Specified in Its Charter)

Not Applicable

(Name of Person(s) Filing Proxy Statement, if other Than the Registrant)

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(2) Form, Schedule or Registration Statement No.:_______________________________________________

(3) Filing party:__________________________________________________________________________

(4) Date filed:___________________________________________________________________________

12700 Hill Country Blvd., Suite T-200
Austin, Texas 78738
March 20, 2019

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders of American Campus Communities, Inc. to be held at 8:30 a.m. (Central Time) on Wednesday, May 1, 2019 at our corporate office located at 12700 Hill Country Blvd., Suite T-200, Austin, Texas. A notice of the meeting, a proxy and a proxy statement containing information about the matters to be acted upon are enclosed.

As American Campus Communities' Board, we are committed to representing and protecting your interests by providing strategic oversight of the Company's Executive Management team, with a focus on sustainable long-term value creation. We believe that the Company's well-positioned balance sheet, sound strategic business plan, and stable operating performance are all key factors in the Company's continuing success.

Our Board is currently comprised of nine highly-qualified and experienced leaders, led by an independent Chairman of the Board. A healthy focus on corporate governance is vital to the Company and its stockholders, and we are committed to ensuring that each of our Board members brings a robust and balanced skillset of diverse perspectives, capabilities and experience to his or her role.

During 2018, the Board and the Company advanced several important initiatives including enhancing director diversity and corporate responsibility. These advancements are outlined in the Director Diversity and Corporate Responsibility sections of this proxy statement. Our Board members also believe it is important to hear feedback directly from investors and proactively participated in investor meetings throughout 2018. These meetings helped to inform our views on governance best practices and strategic plans for the Company.

It is important that your shares be represented and voted whether or not you plan to attend the Annual Meeting in person. If you choose not to attend and vote at the Annual Meeting in person, you may vote by completing and mailing the enclosed proxy card. Voting by written proxy will ensure your shares are represented at the Annual Meeting. Please review the instructions on the proxy card or the information forwarded by your bank, broker or other holder of record regarding each of these voting options.

On behalf of the Board of Directors,

Sincerely,

/s/ Edward Lowenthal

Edward Lowenthal

Independent Chairman of the Board

American Campus Communities, Inc.
12700 Hill Country Blvd., Suite T-200
Austin, Texas 78738

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held May 1, 2019

To the Holders of Common Stock of
AMERICAN CAMPUS COMMUNITIES, INC.:

The 2019 Annual Meeting of Stockholders of American Campus Communities, Inc., a Maryland corporation, will be held at our corporate office located at 12700 Hill Country Blvd., Suite T-200, Austin, Texas, on Wednesday, May 1, 2019, at 8:30 a.m. (Central Time) to consider and take action upon the following:

(i) To elect eight directors to a one-year term of office expiring at the 2020 Annual Meeting of Stockholders or until their successors are duly elected and qualified;
(ii) To ratify Ernst & Young LLP as our independent auditors for 2019;
(iii) To hold an advisory vote on executive compensation; and
(iv) To consider and act upon any other matters that may properly be brought before the Annual Meeting and at any adjournments or postponements thereof.

The enclosed proxy card is solicited by the Board of Directors, which recommends that our stockholders vote FOR the election of the nominees named therein and FOR approval, on an advisory basis, of the compensation of our named executive officers. The Audit Committee, which has the sole authority to retain our independent auditors, recommends that you vote FOR the ratification of Ernst & Young LLP as our independent auditors for 2019. Please refer to the attached Proxy Statement for further information with respect to the business to be transacted at the Annual Meeting.

The Board of Directors has fixed the close of business on March 11, 2019, as the record date for determining the stockholders entitled to notice of and to vote at the Annual Meeting and at any adjournments or postponements thereof. Only stockholders of record of our common stock at the close of business on that date will be entitled to notice of and to vote at the Annual Meeting and at any adjournments or postponements thereof.

Whether or not you plan to attend the Annual Meeting in person, please mark, execute, date and return the enclosed proxy card in the postage-prepaid envelope provided. Should you attend the Annual Meeting in person you may, if you wish, withdraw your proxy and vote your shares in person.

By Order of the Board of Directors,
/s/ Daniel B. Perry
DANIEL B. PERRY
Executive Vice President, Chief Financial Officer, Treasurer and Secretary
Austin, Texas
March 20, 2019

Important Notice Regarding the Availability of Proxy Materials for the
Annual Stockholder Meeting to Be Held on May 1, 2019

This Proxy Statement, Annual Report to Stockholders and Annual Report on Form 10-K for the fiscal year ended December 31, 2018 are available in the Investor Relations section of our website at www.AmericanCampus.com under “SEC Filings.”

TABLE OF CONTENTS


| | |
|---|---|
| Proxy Statement Summary | 1 |
| Questions and Answers | 5 |
| Proposal 1 - Election of Directors | 7 |
| Board of Directors | 7 |
| Board Composition | 7 |
| Consideration of Director Nominees | 13 |
| Governance of the Company | 14 |
| Board Independence and Meetings | 14 |
| Board Leadership Structure; Separate Independent Chairman of the Board | 14 |
| Board's and Committees' Roles in Risk Oversight | 14 |
| Corporate Responsibility | 15 |
| Board Committees | 15 |
| Director Qualifications; Limits on Board Service | 19 |
| Term Limits; Retirement Age | 20 |
| Board Diversity | 20 |
| Number of Directors; Director Vacancies | 20 |
| Stockholder Approval of Amendment of the Charter and Bylaws and Transactions Outside the Ordinary Course of Business | 21 |
| Guidelines on Governance and Codes of Ethics | 21 |
| Management Succession | 22 |
| Stockholder Outreach and Engagement | 22 |
| Stockholder Communications | 22 |
| Stock Ownership Guidelines | 23 |
| Short Selling, Hedging and Pledging Prohibitions | 23 |
| Repricing and Cash Buyouts of Underwater Options and Stock Appreciation Right Prohibitions | 23 |
| Prohibition on Classifying the Board | 23 |
| Compensation of Directors | 24 |
| Executive Officers | 26 |
| Security Ownership | 29 |
| Section 16(a) Beneficial Ownership Reporting Compliance | 30 |
| Executive Compensation | 31 |
| Compensation Committee Report | 31 |
| Compensation Discussion and Analysis | 31 |
| Summary Compensation Table | 49 |
| Grants of Plan Based Awards | 51 |
| Employment Contracts | 51 |
| Outstanding Equity Awards at Fiscal Year-End | 52 |
| Awards Vested | 53 |
| Potential Payments Upon Termination or Change in Control | 53 |

| | |
|---|---|
| Nonqualified Deferred Compensation | 55 |
| Equity Compensation Plan | 56 |
| CEO Compensation Pay Ratio | 56 |
| Certain Relationships and Related Transactions | 57 |
| Proposal 2 - Ratification of the Selection of the Independent Auditors | 58 |
| Audit Committee Information | 58 |
| Report of the Audit Committee | 58 |
| Independent Auditor Fees | 59 |
| Proposal 3 - Advisory Vote on Executive Compensation | 61 |
| Stockholder Proposals | 63 |
| 2018 Annual Report | 63 |

American Campus Communities, Inc.
12700 Hill Country Blvd., Suite T-200
Austin, Texas 78738

PROXY STATEMENT

The accompanying proxy card, to be mailed to stockholders together with the Notice of Annual Meeting of Stockholders and this Proxy Statement on or about March 25, 2019, is solicited by the Board of Directors of American Campus Communities, Inc. (the "Company") in connection with the Annual Meeting of Stockholders (the "Annual Meeting") to be held on May 1, 2019.

PROXY STATEMENT SUMMARY

The following summary highlights important information you will find in this Proxy Statement regarding matters to be considered at the Annual Meeting. As it is only a summary, please read the other information contained in this Proxy Statement before you vote.

Governance Highlights

The Board of Directors and the Company are committed to strong corporate governance which promotes the long-term interests of stockholders, strengthens management and director accountability and helps to maintain public trust in the Company. The "Governance of the Company" section describes the governance framework, which includes the following highlights:

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| • Separate Chief Executive Officer and Independent Chairman of the Board | • Risk oversight by full board and committees and independent Risk and Strategic Planning Committee |
| • Annual election of directors by majority vote, with a plurality carve-out in the case of contested elections | • No directors or executive officers involved in material related party transactions |
| • Prohibition on a classified board structure | • Limits on board service |
| • Independent director nominees comprise 88% of the Board and 100% of the Audit, Compensation, Nominating and Corporate Governance, and Risk and Strategic Planning Committees | • Director and senior officer stock ownership guidelines, which include a prohibition on the sale by senior officers of vested restricted stock awards until the applicable ownership guideline has been met, and a requirement that the Chief Executive Officer own common stock having a market value of at least six times his annual base salary |
| • Robust director selection process, which resulted in two new independent directors joining the Board during 2018, increasing female representation of current director nominees to 25% | • Prohibition on repricing options and stock appreciation rights |
| • Regular director performance assessment and annual board and committee evaluations | • Prohibition on cash buyouts of underwater options and stock appreciation rights |
| • Ongoing succession planning for directors, the Chief Executive Officer and other executive officers | • Anti-hedging and anti-pledging policies |
| • Independent directors approve the primary risk policies as reflected in the charter of the | • Clawbacks to recoup compensation |

Risk and Strategic Planning Committee

| | |
|---|---|
| • Regular executive sessions of independent directors | • Proxy access provision in Bylaws, which permits stockholders to amend Bylaws |

1

2018 Executive Compensation

The Company's executive compensation programs are designed to attract, retain and motivate talented executives, to reward executives for the achievement of pre-established Company and tailored individual goals consistent with the Company's strategic plan and to link compensation to Company performance. Executives are primarily compensated through base salary, annual cash incentive compensation and long-term equity incentive compensation. The Company's executive compensation philosophy emphasizes performance-based incentive compensation over fixed cash compensation so that the vast majority of total direct compensation is variable and not guaranteed, as displayed below in the visual diagram of 2018 target compensation for the Chief Executive Officer, or CEO, and other named executive officers or NEOs. In addition, a significant percentage of incentive compensation is in the form of equity awards granted to reward performance. Although these performance-based equity awards are fully earned at the time of grant, a substantial portion of the awards vests over time, furnishing additional retention benefits and achieving enhanced alignment with stockholders. We believe this structure appropriately focuses the executive officers on the creation of long-term value and encourages prudent evaluation of risks.

Our stockholders have consistently supported our executive compensation program. At our 2018 Annual Meeting of Stockholders, 93% of the votes cast were voted in favor of our resolution seeking advisory approval of our executive compensation. Over the last five years, stockholder support for our advisory vote on executive compensation has averaged 93%, with no year below 86%. While we have consistently had strong stockholder support for our executive compensation program, the Compensation Committee does use an independent compensation consultant to review the structure of our compensation program, and to assess the effectiveness of our program in aligning executive and stockholder interests.

Pay-At-Risk: 2018 Direct Compensation Target

2

2018 Executive Compensation Decisions

In 2018, compensation decisions once again reflected strong alignment between pay and performance. In determining the incentive compensation paid to active named executive officers for 2018, the Compensation Committee rigorously evaluated Company and individual performance relative to the pre-established measures and goals under the annual cash and long-term equity incentive plans.

For 2018, annual cash incentive compensation for named executive officers was subject to each executive's individual performance, departmental performance, the overall performance of the Company and the advancement of the Company's long-term strategic initiatives. The determination reflected the achievement of pre-established measures related to transactional, operational, financial and strategic objectives that served as the underlying assumptions in the Company's stated earnings guidance, such as growth of net operating income, or NOI, operating margin improvement, the achievement of development yields, quality external growth, targeted joint ventures and/or dispositions and rental revenue growth.

Also for 2018, 50% of the value of long-term equity incentive awards for named executive officers was determined exclusively by achievement of absolute total stockholder return ("TSR"), three-year relative TSR, and funds from operations-modified, or FFOM, per share. These quantitative performance metrics are not subject to Compensation Committee or Board discretion. The other 50% was predicated on performance metrics that enable the Compensation Committee to exercise discretion in rewarding actions that preserve long-term stockholder value while discouraging excessive risk-taking. The Compensation Committee and the independent members of the Board believe that this equal weighting, between a fixed quantitative evaluation of performance and a more qualitative evaluation, provides the appropriate incentive structure and balance to drive long-term stockholder value and discourage excessive risk-taking. The Compensation Committee and the independent members of the Board will continue to evaluate the long-term incentive plan in the context of the overall executive compensation program, business needs and feedback from stockholders.

In 2018, the Company accomplished significant financial objectives and milestones, including:

- Achieving record levels in total revenue and FFOM
- Leading the sector in leasing for the 14th consecutive year with a 2018/2019 academic year same store lease-up that achieved 97% occupancy and 3.6% opening rental revenue growth
- Producing same store NOI growth for the 14th consecutive year (every year since becoming a public company in 2004)
- Delivering ten new owned development and presale development projects into service on-schedule, totaling $669.9 million in development cost, the largest development delivery year in the Company's history, with the six new owned development projects completed 1% under budget
- Executed an agreement to develop a $615 million, 10,440-bed housing project for college students participating in the Disney College Program, which is currently scheduled to be delivered in multiple phases through 2023

A reconciliation of net income to FFOM and NOI for the year ended December 31, 2018, is contained in the 2018 Annual Report on Form 10-K and in the earnings release furnished on a Current Report on Form 8-K filed on February 20, 2019.

This discussion of the Company, its business and individual measures are used in assessing performance. These measures are discussed in the limited context of the executive compensation program. You should not interpret them as statements of the Company's expectations or as any form of guidance. We caution you not to apply the statements or disclosures made in this Proxy Statement in any other context.

2018 Compensation Practices at a Glance

ü DO align pay and performance by linking a substantial portion of compensation to the achievement of pre-established performance measures that drive stockholder value

ü DO provide executive officers with the opportunity to earn market-competitive compensation through a mix of cash and equity compensation, with strong emphasis on performance-based incentive awards

ü DO have a robust peer selection process and benchmark executive compensation to target the median of the comparative group of peer companies

ü DO require executive officers and directors to own and retain shares of common stock that have significant value to further align interests with stockholders

ü DO enhance alignment with long-term shareholder value and executive officer retention with 5-year vesting schedules for equity incentive awards earned for prior-year performance

ü DO enable the Board to “claw back” incentive compensation in the event of an accounting restatement due to material non-compliance with financial reporting requirements as a result of misconduct by executive officers

ü DO prohibit new tax gross-up arrangements under anti-tax gross-up policy

ü DO maintain a Compensation Committee comprised solely of independent directors

ü DO engage an independent compensation consultant to advise the Compensation Committee on executive compensation matters and establishing an appropriate peer group

û DO NOT base incentive awards on a single performance measure, thereby discouraging unnecessary or excessive risk-taking

û DO NOT provide guaranteed minimum payouts or uncapped award opportunities

û DO NOT reprice or permit cash buyouts of underwater stock options

û DO NOT provide executive officers with excessive perquisites or other personal benefits

û DO NOT provide executive officers with pension or retirement benefits other than pursuant to a 401(k) plan and a deferred compensation plan

û DO NOT permit executive officers or directors to engage in derivative or other hedging transactions in the Company’s securities

û DO NOT provide accelerated vesting upon a change of control under the 2018 Incentive Award Plan

û DO NOT provide single-trigger change of control benefits

û DO NOT permit executive officers and directors to hold the Company's securities in margin accounts or to otherwise pledge the securities to secure loans

QUESTIONS AND ANSWERS

Q: What am I voting on?

A: Election of eight directors to hold office for a one-year term, ratification of Ernst & Young LLP as the Company's independent auditors for 2019 and approval of an advisory vote on executive compensation.

Q: Who is entitled to vote?

A: Stockholders as of the close of business on March 11, 2019 are entitled to vote at the Annual Meeting. Each share of common stock is entitled to one vote.

Q: How do I vote?

A: Sign and date each proxy card you receive and return it in the prepaid envelope. If you do not mark any selections, the proxy holders named on your proxy card will vote your shares in favor of all of the director nominees, in favor of the ratification of Ernst & Young LLP as the Company's independent auditors for 2019 and in favor of approval, on an advisory basis, of the compensation of the named executive officers. You may change your vote or revoke your proxy at any time before the Annual Meeting by submitting written notice to the Secretary, submitting another proxy that is properly signed and later dated or voting in person at the Annual Meeting. In each case, the later submitted votes will be recorded and the earlier votes revoked. If you hold your shares in street name, please follow the procedures required by your bank, broker or other nominee to revoke a proxy. You should contact that firm directly for more information on these procedures.

Under New York Stock Exchange rules, the proposal to ratify the appointment of independent registered public accountants is considered a "discretionary" item. This means that brokerage firms may vote in their discretion on this matter on behalf of clients who have not furnished voting instructions at least ten days before the date of the meeting. In their discretion, the proxy holders are authorized to vote on any other matters that may properly come before the Annual Meeting and at any postponement or adjournment thereof. The Board knows of no other items of business that will be presented for consideration at the Annual Meeting other than the proposals described in this Proxy Statement. In addition, no stockholder proposals or nominations were received on a timely basis, so no such matters may be brought to a vote at the Annual Meeting.

Q: Is my vote confidential?

A: Yes. Proxy cards, ballots and voting tabulations that identify individual stockholders are confidential. Only the inspectors of election and certain employees associated with processing proxy cards and counting the vote have access to your card. Additionally, all comments directed to management (whether written on the proxy card or elsewhere) will remain confidential, unless you ask that your name be disclosed.

Q: Who will count the vote and how are votes counted?

A: All votes will be tabulated by the inspector of election appointed for the Annual Meeting, who will separately tabulate affirmative and negative votes and withheld votes and abstentions. In order to be elected as a director, a nominee must receive a majority of the votes cast at the Annual Meeting at which a quorum is present. For election of directors, abstentions and broker non-votes will not affect the vote outcome. In order for Ernst & Young LLP to be ratified as the Company's independent auditors for 2019 and for the advisory vote on executive compensation to be approved, the respective proposal must receive a majority of the votes cast at the Annual Meeting at which a quorum is present. For ratification of the independent auditors for 2019, an abstention will have the same effect as an "Against" vote and, as this is a routine matter, there will not be any broker non-votes. For approval of the advisory vote on executive compensation, an abstention will have the same effect as an "Against" vote, but a broker non-vote will not affect the vote outcome. "Broker non-votes" are proxies from brokers or other nominees indicating that such person has not received instructions from the beneficial owner or other person entitled to vote the shares that are the subject of the proxy on a particular matter with respect to which the broker or other nominee does not have discretionary voting power.

Q: What constitutes a quorum?

A: As of the record date for the Annual Meeting, 137,213,092 shares of common stock were issued and outstanding. A majority of the outstanding shares, present or represented by proxy, constitutes a quorum for the transaction of business at the Annual Meeting. Abstentions and broker non-votes will be counted in determining the presence of a quorum.

Q: Who can attend the Annual Meeting?

A: All stockholders of record as of March 11, 2019 can attend.

Q: Who pays for this proxy solicitation?

A: The Company will bear the entire cost of solicitation of proxies, including preparation, assembly and mailing of this Proxy Statement, the proxy card and any additional information furnished to stockholders. Copies of solicitation materials will be furnished to banks, brokerage houses, fiduciaries and custodians holding shares of the Company's common stock in their names that are beneficially owned by others to forward to these beneficial owners. Persons representing beneficial owners may be reimbursed for their costs of forwarding the solicitation material to such beneficial owners. Original solicitation of proxies by mail may be supplemented by telephone, facsimile, electronic mail or personal solicitation by the Company's directors, officers or employees. The Company will not pay any additional compensation to directors, officers or employees for such services.

PROPOSAL 1 –
ELECTION OF DIRECTORS

The Board recommends you vote FOR each of the nominees listed.

ELECTION OF DIRECTORS

There are currently nine directors on the Board, William C. Bayless, Jr., William Blakeley Chandlee III, G. Steven Dawson, Cydney C. Donnell, Mary C. Egan, Edward Lowenthal, Oliver Luck, C. Patrick Oles,Jr., and John T. Rippel. Mr. Chandlee has decided to not stand for re-election to the Board of Directors at the Annual Meeting in order to focus on other opportunities. Each of the other current directors has been nominated for re-election to the Board. The Board is currently contemplating adding an additional director in the future. The employment agreement with Mr. Bayless provides that he will be nominated as a director. See "Executive Compensation – Employment Contracts" for additional information. Directors elected at the Annual Meeting will hold office for a one-year term.

All nominees have consented to serve as directors. The Board has no reason to believe that any of the nominees will be unable to act as director. However, if a director is unable to stand for re-election, the Board may either reduce the size of the Board or the Nominating and Corporate Governance Committee may designate a substitute. If a substitute nominee is named, the proxies will vote for the election of the substitute.

Directors are elected by a majority of the votes cast at the Annual Meeting. Each share of common stock is entitled to one vote for each of the eight director nominees. Cumulative voting is not permitted.

BOARD OF DIRECTORS

Board Composition

The Nominating and Corporate Governance Committee seeks directors with established strong professional reputations and experience in areas relevant to the strategy and operations of the business. Each of the nominees for election as a director at the Annual Meeting holds or has held senior executive positions in large, complex organizations and has experience that meets this objective, as described below. In these positions, they have also gained experience in core management skills, such as strategic and financial planning, public company financial reporting, compliance, risk management and leadership development. Each director also has experience serving on or advising boards of directors and board committees of other organizations and has an understanding of corporate governance practices and trends.

In addition to the above, the Nominating and Corporate Governance Committee also considered the specific experience described in the biographical details that follow in determining to nominate the individuals set forth below for election as directors.

Skills and Experiences Support Our Long-Term Strategy

| | |
|---|---|
| Investment Expertise | Real Estate Expertise |
| Legal/Regulatory | Strategic Planning |
| Public and Private Capital Markets Experience | Technology/Innovation |
| Public Company Executive Experience | University and Government Relations |

The Nominating and Corporate Governance Committee also believes that each of the nominees has other key attributes that are important to an effective board: integrity, candor, analytical skills, the willingness to engage management and each other in a constructive and collaborative fashion, and the ability and commitment to devote significant time and energy to serve on the Board and its committees. The Nominating and Corporate Governance Committee takes into account diversity considerations (as discussed below in "Board Diversity") in determining the director nominees and planning for director succession and believes that, as a group, the nominees bring a diverse range of perspectives to the Board's deliberations. Each of the nominees, other than Mr. Bayless, is independent of the Company and its management.

As set forth below, our director nominees exhibit a balanced mix of independence, tenure, gender diversity, age, and financial expertise.

| | | |
|---|---|---|
| Independence | 88% | 12% |

| | < 5 years | 5 - 10 years | > 10 years |
|---|---|---|---|
| Tenure | 3 | 1 | 4 |

| | Female | Male |
|---|---|---|
| Gender diversity | 25% | 75% |

| | 50-60 | 60-70 | 70+ |
|---|---|---|---|
| Age | 4 | 3 | 1 |

| | | |
|---|---|---|
| Financial expert [1] | 63% | 37% |

(1) As such term is defined in Item 407(d)(5)(ii) of Regulation S-K.

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| William C. Bayless, Jr.<br><br>CEO & Director since 2004<br>Committees: Executive | William C. Bayless, Jr. has been Chief Executive Officer since October 2003 and also served as President from October 2003 to January 2017. Bill is a co-founder of the Company and participated in the founding of the student housing business of its predecessor entities. Bill served as Executive Vice President and Chief Operating Officer of the predecessor entities from July 1995 to September 2003, where he directed all aspects of the predecessor entities' business segments including business development, development and construction management, acquisitions and management services. He served as the Company's Vice President of Development from the inception of the predecessor entities in 1993 until July 1995. Bill served as the Director of Operations for Century Development's student housing division from 1991 to 1993. From 1988 to 1991, Bill served as the Director of Marketing responsible for business development and marketing for the student housing division of Cardinal Industries. Bill began his career in student housing with Allen & O'Hara where he held the positions of Resident Assistant, Resident Manager and Area Marketing Coordinator from 1984 to 1988. Bill has served on the Advisory Board of Amherst Holdings, LLC since June 2018. Bill was instrumental in the formation of American Campus Charities Foundation, which supports charitable activities focused on disadvantaged youth and education in the Company's hometown of Austin, Texas, as well as in the local markets served by the Company's communities. The Foundation has raised in excess of $5 million for the causes consistent with its focus. Bill also currently serves on the Board for the Rise School of Austin, which provides high quality early childhood education for gifted, traditional and developmentally delayed children in an inclusive setting, using individualized learning techniques. He received a B.S. in Business Administration from West Virginia University. Age: 54.<br>Areas of Relevant Experience: Ability to lead the organization; detailed knowledge and unique perspective and insights regarding the student housing industry and the strategic and operational opportunities and challenges, economic and industry trends, and competitive and financial positioning of the Company and the business. |

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| G. Steven Dawson<br><br>Director since 2004<br>Committees: Audit, Compensation | G. Steven Dawson is a private investor focused on real estate, energy, financial services and other commercial interests in the US and Canada. He has significant experience serving on the boards of directors of numerous public and private companies over the past 19 years. From 1990 to 2003 he served as the Chief Financial Officer of Camden Property Trust (NYSE:CPT) and its predecessors. Camden is a large multifamily REIT based in Houston with apartment operations, construction and development activities throughout the United States. Steve currently serves on the boards of Cohen & Co. (NYSE American: COHN), a financial services firm specializing in fixed income and structured credit securities trading, securitizations, management, and advisory operations in the U.S. and Europe, and Medical Properties Trust (NYSE: MPW), a hospital/healthcare REIT with hospital properties in the U.S., Australia and Europe. Steve holds a degree in business from Texas A&M University, where he serves on the Real Estate Roundtable of the Mays Graduate School of Business. Age: 61.<br><br>Areas of Relevant Experience: Financial reporting; accounting and controls; REIT management; real estate operations, investment and development. |

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|---|---|
| Cydney C. Donnell<br><br>Director since 2004<br>Committees: Compensation, Executive, Risk and Strategic Planning | Cydney C. Donnell has been the Director of Real Estate Programs and an Executive Professor at the Mays Business School of Texas A&M University, and has served as Associate Department Head of the Finance Department since February 2011. Cydney has taught various subject matters, including real estate finance, investments and corporate governance, since August 2004. Cydney was formerly a principal and Managing Director of European Investors/E.I.I. Realty Securities, Inc. Cydney served in various capacities at EII and was Chair of the Investment Committee from 2002 to 2003, the Head of the Real Estate Securities Group and Portfolio Manager from 1992 to 2002 and Vice-President and Analyst from 1986 to 1992. Cydney served on the Board of European Investors Holding Company from 1992 to 2005. Prior to joining EII, she was a real estate lending officer at RepublicBanc Corporation in Dallas from 1983 to 1986. Cydney currently serves on the board of Pebblebrook Hotel Trust (NYSE:PEB), a hotel REIT. She served on the Board of Directors of Madison Harbor Balanced Strategies Inc., a closed-end investment fund registered under the Investment Company Act of 1940 and a REIT from 2005 to 2017. In 2007, Cydney was appointed to the Employees Retirement System of Texas Board of Trustees by Governor Rick Perry, and her term ends in May 2019. Cydney has served on the Board and Institutional Advisory Committee of the National Association of Real Estate Investment Trusts, or NAREIT. She has also served in various leadership capacities for The Association of Former Students of Texas A&M University and the Junior League of the City of New York. Cydney received a B.B.A. from Texas A&M University and an M.B.A. from Southern Methodist University. Age: 59.<br>Areas of Relevant Experience: Financial investment and services; REITs; corporate governance; university operations; strategic planning. |

| | |
|---|---|
| Mary C. Egan<br><br>Director since 2018<br>Committees: Risk and Strategic Planning | Mary C. Egan is currently the founder and president of Customer Centric Research and Strategy, a boutique management consulting firm serving the consumer sector. In 2013, Egan founded Gatheredtable (a software company providing customized meal planning consumer subscriptions), serving as the chief executive officer through the recent strategic exit to Medifast (NYSE: MED). From 2010 to 2012, Ms. Egan served as the chief strategy officer for Starbucks Corporation (NASDAQ: SBUX), a global coffee retailer, where she also led corporate development as well as the food category. From 1997 through 2010, Egan was a managing director at The Boston Consulting Group (BCG), a global management consulting firm. At BCG, Egan specialized in aggressive growth strategies in partnership with consumer-facing businesses. Egan currently serves on the Board of Directors of Noodles & Company (NASDAQ: NDLS), a fast-casual restaurant concept. She holds a BA from Barnard College, Columbia University, an MSEd from Bank Street Graduate School of Education and an MBA from Columbia Business School. Age: 50.<br>Areas of Relevant Experience: Strategic planning; technology; business development and leadership. |

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| Edward Lowenthal<br><br>Director since 2004<br>Committees: Executive, Compensation, Nominating and Corporate Governance | Edward Lowenthal has served as the Independent Chairman of the Board since August 2015. He has been President of Ackerman Management LLC since April 2002, a private investment management and advisory company with particular focus on real estate and other asset-based investments. Ed was a founder and served as the President of Wellsford Real Properties, Inc. (NYSE:WRP) from 1997 until 2002, which owned and operated multifamily apartments throughout the United States. Ed currently serves as a director of Omega Healthcare Investors, Inc. (NYSE:OHI), a healthcare REIT. Ed serves as non-executive Chairman of Tiburon Lockers, Inc., a privately-held owner and operator of rental locker systems, and as a trustee of The Manhattan School of Music. He received a B.A. degree from Case Western Reserve University and a J.D. degree from Georgetown University Law Center, where he was an editor of the Georgetown University Law Journal. Age: 74.<br>Areas of Relevant Experience: Real estate investment and development; REIT management; law. |

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| Oliver Luck<br><br>Director since 2012<br>Committees: Nominating and Corporate Governance, Risk and Strategic Planning | Oliver Luck has served as Chief Executive Officer and Commissioner of the XFL since June 2018. From January 2015 to June 2018, Oliver was the Executive Vice President for Regulatory Affairs and Strategic Partnerships of the National Collegiate Athletic Association (NCAA). From 2010 to January 2015, he was the Athletic Director of West Virginia University. From 2006 to 2010, Oliver was the President/General Manager of the Houston Dynamo of Major League Soccer. From 2001 to 2005, Oliver was the Chief Executive Officer of the Harris County-Houston Sports Authority, where he oversaw the financing, construction and management of professional sports and entertainment infrastructure in Houston, including Minute Maid Park, Reliant Stadium and Toyota Center. Oliver worked for the National Football League from 1990 to 2001, where he served in a variety of positions, including Vice President of Business Development and President and Chief Executive Officer of NFL Europe. Oliver played quarterback for the Houston Oilers from 1982 to 1986. He is currently a member of the National Football League Player Safety Advisory Panel, and served as a member of the College Football Playoff Selection Committee and in various capacities in a number of university and community associations. He was a finalist to be a Rhodes Scholar, a National Football Foundation Scholar and a two-time Academic All-American who received a B.A. degree from West Virginia University and a J.D. degree from University of Texas School of Law. Age: 58.<br><br>Areas of Relevant Experience: University management; business development and leadership; law. |

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| C. Patrick Oles, Jr.<br><br>Director since 2014<br>Committees: Audit, Executive | C. Patrick Oles, Jr. has been the President and Chief Executive Officer of Barshop & Oles Company, a privately-owned, Texas-based commercial real estate development, investment and management firm, since 1983. Pat served on the senior staff of the Governor of Texas, William P. Clements, Jr., as Director of Governmental Appointments, from 1980 to 1982. Pat has been involved in numerous governmental, business and civic organizations, including ten years of service on the Board of Directors of the Lower Colorado River Authority and as a founding member and Chairman of the Board of Trustees of the Texas Parks & Wildlife Foundation. He was a member of the Advisory Board of Directors of JPMorgan Chase, Chairman of the local chapter of the Young Presidents Organization and a Trustee of the Texas Nature Conservancy. Pat currently serves as a member of the Board of Directors of SouthWest Water Company, a privately-owned provider of water and wastewater services, as a member of the Executive Committee of the Seton Fund, as a member of the Development Board of the McCoy College of Business Administration of Texas State University and as Chair of the UT Elementary School Development Council. Pat received a B.B.A. from the University of Texas at Austin, and now holds the McCoy Professorship for Studies in Entrepreneurship in the McCoy College of Business Administration at Texas State University. Age: 64.<br><br>Areas of Relevant Experience: Real estate investment and development; governmental interactions. |
| John T. Rippel<br><br>Director since 2018<br>Committees: Audit | John T. Rippel is a founding partner of Alliance Residential Company, one of the largest private U.S. multifamily companies, and has been its Chief Investment Officer since 2001 with responsibility for identifying development opportunities and directing the acquisition process for existing communities throughout the country. John began his multifamily career in 1982 as the partner in charge of south Texas development and acquisition for Trammell Crow Residential. In 1994, he led his division to the successful initial public offering of Gables Residential, where he served as a director and its President and Chief Operating Officer. Prior to joining Trammell Crow Residential, John was a CPA with Kenneth Leventhal Company, a national public accounting firm which is now a part of Ernst & Young. John obtained his BBA from the University of Texas at Austin. Age: 64.<br><br>Areas of Relevant Experience: Real estate investment and development; REIT management; financial reporting. |

Consideration of Director Nominees

The Nominating and Corporate Governance Committee will consider appropriate nominees for director whose names are submitted in writing by a holder of the Company’s common stock. Nominations must be addressed to Chairman of the Nominating and Corporate Governance Committee, c/o American Campus Communities, Inc., 12700 Hill Country Blvd., Suite T-200, Austin, Texas 78738, indicating the nominee’s qualification and other relevant biographical information and providing confirmation of the nominee’s consent to serve as director. In order to be considered for the next annual election of directors, any such written request must comply with the requirements set forth in the Company’s bylaws.

The Chairman of the Board or the Chief Executive Officer or Board of Directors may call a special meeting of the stockholders. A special meeting of stockholders will be called upon the written request of the stockholders entitled to cast not less than a majority of all the votes entitled to be cast at such meeting, provided that such written request complies with the requirements set forth in the Company’s bylaws.

The committee considers nominees for the Board from any reasonable source, including current Board members, stockholders or other persons. In 2018, the Nominating and Corporate Governance Committee retained a third party to assist in the identification process for independent directors.

Each of the current directors has been nominated for election as director at the 2019 Annual Meeting, other than Mr. Chandlee, who decided to not stand for re-election to the Board of Directors at the Annual Meeting.

# GOVERNANCE OF THE COMPANY

## Board Independence and Meetings

Board Governance Documents. The Board maintains charters for all committees. In addition, the Board has adopted a written set of corporate governance guidelines and a code of business conduct and ethics. To view the committee charters, corporate governance guidelines and code of business conduct and ethics, please visit www.AmericanCampus.com. The Board has adopted and adheres to corporate governance practices that the Board and senior management believe promote the highest standards of integrity, are sound and represent best practices. The Board of Directors periodically reviews these governance practices, the rules and listing standards of the New York Stock Exchange and SEC regulations, as well as best practices suggested by recognized governance authorities.

Independence. There are eight nominees for director. The Board of Directors has determined, after considering all of the relevant facts and circumstances, that seven nominees (Messrs. Dawson, Lowenthal, Luck, Oles and Rippel, and Ms. Donnell and Ms. Egan) are independent, as “independence” is defined by the New York Stock Exchange. This means that none of the independent directors has any direct or indirect material relationship with the Company, either directly or as a partner, stockholder or officer of an organization that has a relationship with the Company. As a result, the Board has a majority of independent directors on the Board as required by the listing requirements of the New York Stock Exchange.

Executive Sessions. Non-employee directors have regularly scheduled executive sessions in which they meet without the presence of management or management directors. These executive sessions typically occur before or after each regularly scheduled meeting of the Board of Directors. Any independent director may request that an additional executive session be scheduled. The presiding director of these executive sessions is the Independent Chairman of the Board, Mr. Lowenthal.

## Board Leadership Structure; Separate Independent Chairman of the Board

Since the 2004 IPO, the roles of Chief Executive Officer and Chairman of the Board have been separate. Currently, Mr. Lowenthal serves as the Chairman of the Board and Mr. Bayless serves as a director and Chief Executive Officer. The Board of Directors believes this is the most appropriate structure for us at this time because it makes the best use of Mr. Lowenthal’s skills and experience gained over a distinguished career, including as a founder and President of Wellsford Real Properties, Inc.

## Board’s and Committees’ Roles In Risk Oversight

The Board, as a whole, has responsibility for risk oversight, with reviews of certain areas being conducted by the relevant committees that report on their deliberations to the Board. The oversight responsibility of the Board and its committees is enabled by management's reporting processes that are designed to provide visibility to the Board about the identification, assessment and management of critical risks and management’s risk mitigation strategies. These areas of focus include competitive, economic, operational (including those related to cybersecurity), financial (accounting, credit, liquidity and tax), legal, regulatory, compliance, health, safety and environment, and reputational risks. The Board and its committees oversee risks associated with their respective principal areas of focus, as summarized in the following Board Committee table. Each committee meets in executive session with key management personnel and representatives of outside advisors (for example, the head of Internal Audit meets in executive session with the Audit Committee).

Corporate Responsibility

Corporate responsibility is fundamental to the Company’s mission to consistently provide every resident and team member with an environment conducive to healthy living, personal growth, academic achievement and professional success. This mission drives our ESG (environmental, social and governance) vision of creating healthy, sustainable environments with a sense of community and connection by giving back, investing in our employees and driving long-term value for all stakeholders.

During 2018, the Company formed a multi-functional ESG Committee sponsored by our President and engaged a third-party ESG consultant. Working together, the committee and our consultant are conducting an initial ESG evaluation of the Company’s existing strengths, weaknesses, opportunities and threats, performing an entity-level ESG analysis and benchmarking our existing practices versus those publicly disclosed from a selection of peers. Additional information regarding the Company’s ESG initiatives may be found online at www.AmericanCampus.com at About Us (although none of the information on the Company’s website is incorporated into this Proxy Statement by reference).

Board Committees

The following table identifies each committee of the Board, its key function, its primary areas of risk oversight and the number of meetings held during 2018. A copy of the charter for each of these committees is available on the Company’s website at www.AmericanCampus.com.

| COMMITTEE | KEY RESPONSIBILITIES | 2018 MEETINGS |
| --- | --- | --- |
| Board of Directors | Strategic oversight<br>Corporate governance<br><br>Stockholders' advocacy<br>Primary areas of oversight:<br><br>Strategic, financial and execution risks and exposures associated with annual operating and long term strategic plans, major litigation and regulatory exposures<br><br>Other current matters that may present material risk to the Company's operations, plans, prospects or reputation; and acquisitions and divestitures (including through post-closing reviews) | 5 [1] |

| | | |
|---|---|---|
| Audit | Overseeing the integrity of the Company's consolidated financial statements and its compliance with legal and regulatory requirements | 8 |
| Audit Committee Report: Page 58 | Assessing the independent auditor's qualifications, independence, and performance | |
| Charter last amended October 2013 | Reviewing, as it deems appropriate, the adequacy of the Company's systems of disclosure controls and internal controls regarding financial reporting and accounting | |
| | Sole authority to appoint and replace the independent auditors (who report directly to the committee), approve the engagement fee of the independent auditors, and pre-approve the audit services and any permitted non-audit services that the independent auditors may provide to the Company | |
| | Primary areas of oversight: | |

Risks and exposures associated with financial matters, particularly financial reporting, tax, accounting, disclosure, internal control over financial reporting, financial policies, investment guidelines and credit and liquidity matters

15

| COMMITTEE | KEY RESPONSIBILITIES | 2018 MEETINGS |
|---|---|---|
| Compensation | Establishing the Company's general compensation philosophy | 5 |
| Compensation Committee Report: Page 31 | Overseeing the Company's compensation programs and practices including any employment, severance and termination agreements, or arrangements with any Named Executive Officer | |
| Charter last amended June 2013 | Reviewing and approving corporate goals and objectives relevant to the compensation of Named Executive Officers | |
| | Evaluating annually the performance of the Named Executive Officers in light of the goals and objectives | |
| | Determining the compensation level of each Named Executive Officer based on this evaluation | |
| | Primary areas of oversight: | |

| | | |
|---|---|---|
| | Risks and exposures associated with leadership assessment and executive compensation programs and arrangements, including incentive plans | |
| Executive | Approving, subject to certain limitations, acquisitions, financings, and dispositions<br><br>Authorizing the execution, subject to certain limitations, of certain contracts and agreements, including those relating to the borrowing of money<br><br>Exercising generally all other powers of the Board, except for those that require action by all directors or the non-employee directors under the Company's articles of incorporation, bylaws or applicable law | 0 |
| Nominating and Corporate Governance | Assisting the Board in promoting the Company's and the stockholders' best interests through the implementation of sound corporate governance principles and practices | 4 |

Charter last amended March 2010

Identifying individuals qualified to become Board members, consistent with criteria approved by the Board and recommending to the Board the director nominees for the next Annual Meeting

Developing and recommending to the Board a set of corporate governance principles applicable to the Company

Overseeing the evaluation of the Board and management

Conducting annual succession planning for the CEO and other executive officers

Primary areas of oversight:

Risks and exposures relating to programs and policies concerning corporate governance and succession planning

| COMMITTEE | KEY RESPONSIBILITIES | 2018 MEETINGS |
|---|---|---|
| Risk and Strategic Planning | Assessing the Company's risk appetite and crisis management strategy relating to key risks | 4 |
| Charter last amended August 2015 | Creating guidelines, policies and processes for assessing, managing, monitoring and mitigating such risks | |
| | Approving plans for detecting, responding to and mitigating security breaches | |
| | Establishing, approving and monitoring the Company’s strategic business plan | |
| | Primary areas of oversight: | |
| | The Company's risk governance structure | |
| | Policies and processes for risk assessment and risk management, including those related to the Company's business strategies, cyber systems, | |

litigation, assets, and controls

Evaluating the Company's risk appetite and strategy relating to key risks and guidelines, policies and processes for assessing, managing, monitoring and mitigating such risks

Plans for detecting, responding to and mitigating security breaches

Crisis management policies and procedures

Risks associated with deviating from the Company’s strategic plan and core competencies

(1) All directors attended at least 75% of the total number of meetings of the Board and committees, collectively, on which they served during 2018. All directors are encouraged to attend the Annual Meeting. All the persons then serving as members of the Board attended the 2018 Annual Meeting.

17

Committee Charting

The following table graphically displays the current directors, the current committee members, the respective committee chair, the independent members and Audit Committee financial experts (as such term is defined in Item 407(d)(5)(ii) of Regulation S-K), based on their expertise in accounting and financial management. Each member of the Nominating and Corporate Governance, Compensation, Audit and Risk and Strategic Planning Committees satisfies the independence requirements of applicable law and the requirements of the SEC and NYSE.

Board and Committee Evaluations

The Board recognizes that a thorough, constructive evaluation process enhances the effectiveness of the Board and contributes to the implementation of the Company's governance practice. It is important to take stock of Board, committee, and director performance and to solicit and act upon feedback received. As such, each director participates in the annual process outlined below.

Director Qualifications; Limits on Board Service

The Nominating and Corporate Governance Committee reviews with the Board on an annual basis the appropriate skills and characteristics required of Board members in the context of the then-current composition of the Board. In addition to qualities of intellect, this assessment includes integrity and judgment, business experience and knowledge, reputation and character, issues of diversity (as discussed below), relevant industry and trade association knowledge and participation, accounting and financial expertise, public company experience and relevant legal and regulatory qualifications. The committee also seeks candidates who are willing to challenge management in a productive and constructive manner, and who possess the willingness and ability to devote the time and effort required to effectively serve on the Board. The committee makes this determination in the context of an assessment of the perceived needs of the Board at that point in time. The committee evaluates all nominees for director based on these criteria, including nominees that may be recommended by stockholders.

The Board recognizes that its members benefit from service on the boards of other companies. That service is encouraged, but it is also critical that directors have the opportunity to dedicate sufficient time to their service on our Board. To that end, individuals who serve on more than six other public company boards will not normally be asked to join the Board unless the Board determines that such simultaneous service would not impair the ability of such individual to effectively serve on the Board.

Term Limits; Retirement Age

The Guidelines on Governance provide that, as a general matter, non-employee directors will not stand for election to a new term of service at any Annual Meeting following their $75^{th}$ birthday. However, the Board may approve exceptions to this practice when it believes it is in the Company’s interest to do so. The Board does not believe it should establish term limits for director service, instead preferring to rely upon the mandatory retirement age and the evaluation procedures described below as primary methods of ensuring that each director continues to act in a manner consistent with the best interests of the Company, stockholders and the Board. The Board believes that term limits have the disadvantage of limiting valuable insights from directors who have been able to develop, over a period of time, a specialized understanding of student housing and, therefore, provide a beneficial contribution to the Board as a whole.

Board Diversity

The Nominating and Corporate Governance Committee considers the current composition of the Board in light of the diverse communities and geographies the Company serves and the interplay of a candidate’s or nominee’s experience, education, skills, background, gender, race, age, ethnicity, and other qualities and attributes with those of the other Board members. Consideration extends beyond the traditional notion of diversity to include a more broad range of experience, thought, perspectives, and competencies to enable effective board leadership. In implementing its practice of considering diversity of thought, more emphasis may be placed on attracting or retaining director nominees with certain specific competencies or experience, such as industry, regulatory, operational, or financial expertise, depending on the circumstances and the composition of the Company’s Board at the time. Gender, age, race, and ethnic diversity also have been, and will continue to be, a priority in the director nomination process as a board comprised of directors with widely-varying backgrounds provide a more robust and complex perspective and is better able to provide oversight in driving sustainable financial performance in the current complex and rapidly-evolving business environment. The Nominating and Corporate Governance Committee and independent members of the Board remain cognizant of the Board’s characteristics, monitoring the effectiveness of the current practice and focusing on its diverse priorities as the Board evolves and new candidates or nominees are considered. In 2018, the Board's diversity was enhanced with the appointment of Mary C. Egan, a proven leader with a wealth of strategic business consulting experience who expanded the Board's existing gender and age diversity, while providing additional diversity of thought and expertise to the Board.

Number of Directors; Director Vacancies

The bylaws provide that at any regular meeting or at any special meeting called for that purpose, a majority of the entire Board of Directors may increase or decrease the number of directors, provided that there cannot be less than three directors. The tenure of office of a director will not be affected by any decrease in the number of directors. The bylaws also provide that if any or all the directors cease to be directors, any vacancy, other than vacancies that result from an increase in the number of directors or from the removal of a director, may in general be filled solely by a majority of the remaining directors, even if the remaining directors do not constitute a quorum. Any vacancy that results from an increase in the number of directors constituting the entire Board of Directors may be filled by a majority of the entire Board of Directors. Any vacancy that results from the removal of a director may be filled either by a majority of the

remaining directors or the Company's stockholders. Any director elected to fill a vacancy will hold office until the next annual election of directors and until a successor is elected and qualified.

Stockholder Approval of Amendment of the Charter and Bylaws and Transactions Outside the Ordinary Course of Business

The Company's charter, including its provisions on removal of directors, may be amended by the affirmative vote of the holders of at least a majority of all of the votes entitled to be cast on the matter. The Company's bylaws may be amended by a majority of the directors or by the affirmative vote of at least a majority of all of the votes entitled to be cast on the matter.

The charter provides that the Company may not merge with or into another entity, sell all or substantially all of its assets, engage in a share exchange or engage in similar transactions outside the ordinary course of the Company's business unless the transaction or transactions are approved by the affirmative vote of the majority of all of the votes entitled to be cast on the matter, except if:

- the merger will merge one of the Company's 90% or more owned subsidiaries into the Company without amending the charter other than in limited respects and without altering the contract rights of the stock of the subsidiary (in which case only the approval of the Board of Directors and the board of directors of the subsidiary is necessary);
- the Company is the successor corporation in a share exchange (in which case only the approval of the Board of Directors is necessary); or
- the Company is the survivor in the merger and the merger does not change the terms of any class or series of the Company's outstanding stock, or otherwise amend the charter, and the number of shares of stock of each class or series outstanding immediately before the merger does not increase by more than 20% of the number of shares of each such class or series of stock that was outstanding immediately prior to effectiveness of the merger (in which case only the approval of the Board of Directors is necessary).

Guidelines on Governance and Codes of Ethics

The Board has adopted Guidelines on Governance to address significant corporate governance issues. These guidelines provide a framework for the Company's corporate governance initiatives and cover a variety of topics, including the role of the Board, Board selection and composition, Board committees, Board operation and structure, Board orientation and evaluation, Board planning and oversight functions and stock ownership guidelines. The Nominating and Corporate Governance Committee is responsible for overseeing and reviewing the guidelines and reporting and recommending to the Board any changes to the guidelines.

The Board of Directors has also adopted a Code of Business Conduct and Ethics, which is designed to help officers, managers and employees resolve ethical issues in an increasingly complex business environment. It covers topics such as reporting unethical or illegal behavior, compliance with law, share trading, conflicts of interest, fair dealing, protection of the Company's assets, disclosure of proprietary information, internal controls, personal community activities, business records, communication with external audiences and obtaining assistance to help resolve ethical issues. The Board also adopted a Code of Ethical Conduct for Senior Financial Officers, which is applicable to the Company's principal executive officer, principal financial officer, principal accounting officer or controller and persons performing similar functions.

You may obtain a copy of the committee charters, Guidelines on Governance, Code of Business Conduct and Ethics and Code of Ethical Conduct for Senior Financial Officers at www.AmericanCampus.com.

Management Succession

Pursuant to the Company's Guidelines on Governance, the Board undertakes regular and appropriate succession planning for the Chief Executive Officer and other executive officers, including policies and principles for selection and performance review for the Chief Executive Officer, as well as policies regarding succession in case of emergency or the retirement of the Chief Executive Officer. The Nominating and Corporate Governance Committee has reviewed the succession plans and reported on them to the Board.

Stockholder Outreach and Engagement

Engagement and transparency with stockholders is helpful in gleaning useful feedback on a wide variety of topics, including governance, compensation, stockholder communication, board composition, stockholder proposals, business performance and operations.

The Company regularly interacts and communicates with stockholders through a number of forums, including quarterly earnings presentations, SEC filings, annual meetings, investor conferences and web communications. Management's outreach efforts during 2018 included meetings with stockholders who collectively held a majority of the outstanding common stock. Additionally in 2018, members of senior management and the Board proactively engaged both passive and active stockholders in an ongoing annual review of the Company's corporate governance policies, board composition, executive compensation program, sustainability initiatives, long-term business strategy and other topics.

The information received in regular stockholder interaction and through the Company's proactive outreach program is shared regularly with management and the Board and is considered in the processes that set the Company's governance practices and strategic direction. Stockholder feedback is also considered in refining and tailoring the public disclosure practices of the Company.

STOCKHOLDER ENGAGEMENT
TOPICS COVERED:

| | |
|---|---|
| Operational, financial and strategic company objectives | Reputational risk |
| Board composition, qualifications, skills, diversity and leadership structure | Executive compensation policies and design |
| Board evaluations and refreshment | Risk management, including cybersecurity |
| Regulatory considerations | Corporate governance trends, including ESG considerations |
| Disclosure best practices | |

Stockholder Communications

Stockholders and interested parties who wish to communicate with any member of the Board of Directors may do so in writing to the following address:

Mr. Edward Lowenthal
Chairman of the Board
c/o American Campus Communities, Inc.
12700 Hill Country Blvd., Suite T-200
Austin, Texas 78738

Mr. Lowenthal will review all correspondence addressed to the Board, or any individual Board member, for any inappropriate correspondence and correspondence more suitably directed to management. Mr. Lowenthal will summarize all correspondence not forwarded to the Board and make the correspondence available to the Board for its review at the Board's request. Mr. Lowenthal will forward stockholder communications to the Board prior to the next regularly scheduled meeting of the Board following the receipt of the communication as appropriate.

Stock Ownership Guidelines

To further support the Company’s goal of achieving a strong link with stockholders, directors are strongly encouraged to purchase and hold shares of common stock with a market value equal to or greater than $350,000 within five years of their election to the Board. This was increased from $250,000 in 2017 based on a review of comparative stock ownership guidelines of the Company's peer group. Additionally, senior officers (which currently total 29 persons) are strongly encouraged to acquire and hold shares of the Company’s common stock having a market value equal to or greater than the following amounts within three years of becoming a senior officer:

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|---|---|
| Chief Executive Officer | 6 times annual base salary |
| President or Executive Vice President | 3 times annual base salary |
| Senior Vice President | 1 times annual base salary |

Operating partnership units, options, restricted stock awards, units subject to vesting, settlement or forfeiture, and shares held in the Company’s deferred compensation plan count towards the recommended levels. Once a director or senior officer meets the stock ownership guidelines, periodic market declines in the value of the Company’s common stock will not adversely affect any previous determination by the Board that the stock ownership guidelines had been met by the director or senior officer. In addition, senior officers must hold, and may not sell, any vested restricted stock awards until the applicable stock ownership guideline has been met. As of the record date all directors and senior officers were in compliance with the stock ownership guidelines.

Short Selling, Hedging and Pledging Prohibitions

Directors and officers may not make “short sales” of any of the Company’s equity securities. “Short sales” are defined as sales of securities that the seller does not own at the time of the sale, or, if owned, securities that will not be delivered for a period longer than 20 days after the sale. In addition, the Company’s directors and officers may not engage in transactions in derivatives of the Company’s equity securities, including hedging transactions, and may not pledge any of the Company’s equity securities.

Repricing and Cash Buyouts of Underwater Options and Stock Appreciation Right Prohibitions

The 2018 Incentive Award Plan and Corporate Governance Guidelines prohibit the repricing of options to purchase the Company’s common stock and stock appreciation rights. The exercise price for options or stock appreciation rights will not be lowered even if the current market price of the Company’s common stock is below the exercise price. The 2018 Incentive Award Plan also prohibits cash buyouts of underwater options and stock appreciation rights. To date, the Company has not issued any stock options or stock appreciation rights.

Prohibition on Classifying the Board

The Company’s bylaws prohibit a future election to classify the Board pursuant to Section 3-803 of the Maryland General Corporation Law, which prohibition may not be repealed unless approved by stockholders by the affirmative vote of at least a majority of all the votes cast on the matter by stockholders entitled to vote on the matter.

COMPENSATION OF DIRECTORS

The table below sets forth the quarterly cash fees paid to non-employee directors for 2018:

| | |
|---|---|
| Board Member (other than Chairman of the Board) | |
| Quarterly Fee | $17,500 |
| Chairman of the Board [(1)] | |
| Quarterly Fee | 23,750 |
| Audit Committee | |
| Chair Quarterly Fee | 5,625 |
| Compensation Committee | |
| Chair Quarterly Fee | 3,750 |
| Nominating and Corporate Governance Committee | |
| Chair Quarterly Fee | 3,000 |
| Risk and Strategic Planning Committee | |
| Chair Quarterly Fee | 3,000 |

(1) The Chairman of the Board is not entitled to receive any committee fees.

On May 3, 2018, the date of the 2018 Annual Meeting, each then current member of the Board was re-elected and each non-employee director, other than the Chairman of the Board, received 2,921 restricted stock units, or RSUs, and the Chairman of the Board received 4,064 RSUs, valued at $39.37 per RSU, or a value of $115,000 and $160,000, respectively. All 2018 grants immediately vested and were settled in shares of the Company's common stock and/or cash in lieu of the delivery of shares. As of December 31, 2018, no RSUs were outstanding.

Mr. Rippel and Ms. Egan received RSUs with a dollar value of $115,000 on March 8, 2018 and September 6, 2018, respectively, the dates on which they were appointed to the Board. On the date of the 2019 Annual Meeting, each non-employee director who is re-elected to the Board of Directors, other than the Chairman of the Board, will receive RSUs with a value of $117,500, and the Chairman of the Board will receive RSUs with a value of $162,500. The increased RSU amounts received by directors at the 2019 Annual Meeting were determined by the Compensation Committee after engaging an independent compensation consultant in 2018 to evaluate the cash and equity compensation for the Company's Board of Directors as compared to peer companies. In addition to increasing the annual RSU grants for Board members, the Compensation Committee also determined it was appropriate to increase the quarterly Board member fees to $18,750 and the quarterly Chairman of the Board fees to $29,275, as well as the quarterly fees to the chairs of the Compensation Committee to $4,687 and the quarterly fees to the chair of the Nominating and Corporate Governance Committee $3,750 to better align the Company's Board compensation levels with that of the Company's peer group.

Members of the Board of Directors are also reimbursed for travel expenses incurred in connection with the Company's business, including attendance at meetings of the Board and its committees.

The table below summarizes the compensation paid to each non-employee director for 2018:

| Name [1] | Fees Earned or Paid in Cash | Stock Awards [2] | Change in Pension Value and Nonqualified Deferred Compensation Earnings [3] | Total |
|---|---|---|---|---|
| William Blakeley Chandlee III | $82,000 | $115,000 | — | $197,000 |
| G. Steven Dawson | 92,500 | 115,000 | — | 207,500 |
| Cydney C. Donnell | 85,000 | 115,000 | — | 200,000 |
| Mary C. Egan | 39,946 | 115,000 | — | 154,946 |
| Edward Lowenthal | 95,000 | 160,000 | — | 255,000 |
| Oliver Luck | 82,000 | 115,000 | — | 197,000 |
| C. Patrick Oles, Jr. | 70,000 | 115,000 | — | 185,000 |
| John T. Rippel [4] | 74,667 | 230,000 | — | 304,667 |

(1) William C. Bayless, Jr., Chief Executive Officer, is not included in this table as he is an employee and thus receives no compensation for his service as director. The compensation received by Mr. Bayless as an employee is shown in the Summary Compensation Table.

(2) Represents aggregate grant date fair value of awards at date of grant. Assumptions used in the calculation of these amounts are included in note 12 to the Company's audited financial statements for the year ended December 31, 2018 included in the annual report on Form 10-K for the year ended December 31, 2018. Certain shares have been deferred by the director pursuant to the deferred compensation plan as shown on the Security Ownership Table.

(3) The Company does not have a pension plan. There were no earnings on nonqualified deferred compensation for directors that were above-market or preferential.

(4) Mr. Rippel received a stock award of $115,000 upon being appointed to the Board in March 2018, and received an additional stock award of $115,000 upon his re-election to the Board in May 2018.

25

## EXECUTIVE OFFICERS

The Company's executive officers are elected by the Board to serve at the pleasure of the Board or until their successors are elected and qualified. The following executive officers are not directors. For information regarding William C. Bayless, Jr., Chief Executive Officer, see "Board of Directors – Board Composition."

| | |
|---|---|
| Jennifer Beese<br>EVP & COO | Jennifer Beese has served as Executive Vice President and Chief Operating Office since January 2017. Jennifer served as Executive Vice President - Operations, Marketing and Leasing from October 2013 to January 2017, and as Senior Vice President of Leasing Administration from November 2007 to October 2013. Jennifer joined the Company in November 1999, previously holding the positions of Vice President of Leasing Administration, Director of Initial Operations, and Regional Manager. From 1994 to 1999, she held various property management positions with JPI. Jennifer holds a B.A. in History from Texas A&M University. Age: 45. |
| Jorge de Cárdenas<br>EVP & CTO | Jorge de Cárdenas has served as Executive Vice President and Chief Technology Officer since May 2015. He served as Senior Vice President and Chief Technology officer from March 2012 to May 2015 and as Senior Vice President of Information Technology from August 2005 to March 2012, and joined the Company's predecessor entities in January 2004 as Vice President of IT. Prior to joining the Company, Jorge served as Director of Product Management for Emerging Technologies at Visa where he was responsible for defining product strategies and delivering application services to a global market. Jorge began his career developing software for NASA at Lockheed Engineering and Science. From 1991 to 1994, Jorge was a co-founder and principal consultant of Everest Technologies, Inc., an Oil & Gas IT consulting firm which was sold to SAIC, Inc. Between 1994 and 2000, he served in various capacities at technology startup companies including software architect, support manager, professional services manager, product management, and marketing. Jorge received a B.S. in Computer Science with specializations in Mathematics and Management from Texas A&M University. Age: 55. |
| James C. Hopke, Jr.<br>President | James C. Hopke, Jr. has served as President since January 2017. Jim served as Executive Vice President and Chief Operating Officer from October 2014 to January 2017, as Executive Vice President-Asset Management from November 2013 to October 2014, as Executive Vice President-Project Management and Construction from November 2007 to November 2013 and as Executive Vice President and Chief Investment Officer from May 2005 to November 2007. From November 2002 to April 2005, Jim served as Vice President, Asset Management and Advisory Services for Wachovia Securities' Real Estate Capital Markets group. From February 2000 to November 2002, he served as Senior Vice President, Acquisitions of the Company's predecessor entities. Jim was previously a Vice President of JPI Development and Insignia Financial Group, and is a former MAI Member of The Appraisal Institute. Jim received a B.S. in Administrative Management from Clemson University. Age: 57. |

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| Daniel B. Perry EVP & CFO | Daniel B. Perry has served as Executive Vice President, Chief Financial Officer, Secretary and Treasurer since March 2017. Daniel served as Executive Vice President-Capital Markets from May 2011 to March 2017, as Senior Vice President-Capital Markets from November 2007 to May 2011 and as Vice President of Investments from February 2005 to November 2007. From 2002 to 2005, Daniel held positions in the investment banking division of Citigroup Global Markets, where he assisted with the successful completion of the Company's initial public offering in 2004. From 1996 to 2001, he worked in the corporate finance divisions of BNP Paribas and NationsBank. Daniel holds a B.A. in Finance and Accounting from Texas A&M University and a M.B.A. from NYU's Stern School of Business. Age: 45. |
| William W. Talbot EVP & CIO | William W. Talbot has served as Executive Vice President and Chief Investment Officer since November 2012 and currently oversees the Company's acquisitions, dispositions, off campus development and on campus public-private partnership development functions. William served as Executive Vice President-Investments from May 2011 to November 2012 and Senior Vice President-Investments from August 2005 to May 2011. William joined us in August 2001 as Director of Acquisitions and has served in various capacities, including Director of Asset Management and Vice President of Investments. Prior to joining the Company, William was an Acquisitions Analyst for Lend Lease Real Estate Investments, Inc. from 1997 until 2001, where he was involved in acquisitions on behalf of pension fund clients. William received a B.A. in Economics and Spanish from Vanderbilt University. Age: 44. |
| Kim K. Voss EVP & CAO | Kim K. Voss has served as Executive Vice President, Chief Accounting Officer and Assistant Secretary since January 2017. Kim served as Executive Vice President and Controller from May 2015 to January 2017 and is responsible for the Company's accounting and financial reporting functions, including SEC reporting, technical accounting, internal controls, and financial systems implementation. She served as Senior Vice President and Controller from November 2007 to May 2015 and joined ACC in 2004 to help lead the Company's accounting department through the initial public offering and transition to a publicly traded company. Kim began her career as an auditor with Arthur Andersen LLP in San Francisco, where her client base consisted primarily of REITs and other real estate entities. Prior to joining ACC, she served as an Assistant Controller with AMB Property Corporation (now Prologis). A Certified Public Accountant, Kim holds Bachelor of Business Administration and Master in Professional Accounting degrees from the University of Texas at Austin. Age: 43. |

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|---|---|
| James E. Wilhelm III<br>EVP<br>Public-Private Transactions | James E. Wilhelm III has served as Executive Vice President, Public-Private Transactions since January 2009 and spearheads the American Campus Equity (ACE™) program. From July 2007 to January 2009, he was Senior Vice President, Public-Private Transactions. From June 2003 to July 2007, Jamie worked for RBC Capital Markets' public finance department where he served as the managing director of the higher education sector. Prior to that time, he was a managing director with Banc One Capital Markets (currently JPMorgan Capital Markets) and held positions at McDonald & Company Securities (currently KeyBanc Capital Markets) and The Ohio Company (currently Fifth Third Capital Markets). Jamie is a graduate of Miami University with a B.S. in Finance. Age: 55. |

28

SECURITY OWNERSHIP

The following table sets forth the number of all shares of common stock beneficially owned by each director, by each named executive officer, by each person known to beneficially own 5% or more of the Company's outstanding common stock, and by all directors and executive officers as a group on March 11, 2019, unless otherwise indicated in the footnotes. Each of the following persons and members of the group had sole voting power and sole dispositive power with respect to the shares shown unless otherwise indicated in the footnotes. Unless otherwise indicated, the address of each named person is c/o American Campus Communities, Inc., 12700 Hill Country Blvd., Suite T-200, Austin, Texas 78738.

| Name of Beneficial Owner | Amount and Nature of Beneficial Ownership Number of Shares Beneficially Owned | | Percent of Class |
|---|---|---|---|
| The Vanguard Group | 19,695,372 | (1) | 14.4% |
| BlackRock, Inc. | 16,980,316 | (2) | 12.4% |
| Capital Research Global Investors | 9,431,971 | (3) | 6.9% |
| T. Rowe Price Associates, Inc | 7,216,769 | (4) | 5.3% |
| William C. Bayless, Jr. | 423,578 | (5) | * |
| James C. Hopke, Jr. | 93,349 | (6) | * |
| William W. Talbot | 111,034 | (7) | * |
| Jennifer Beese | 62,298 | (8) | * |
| Daniel B. Perry | 84,713 | (9) | * |
| Edward Lowenthal | 33,896 | (10) | * |
| John T. Rippel | 20,961 | | * |
| G. Steven Dawson | 20,289 | (11) | * |
| Cydney C. Donnell | 18,983 | | * |
| Oliver Luck | 14,368 | | * |
| C. Patrick Oles, Jr. | 11,375 | (12) | * |
| William Blakeley Chandlee III | 7,535 | | * |
| Mary C. Egan | 2,746 | | * |
| All directors and executive officers as a group (16 persons) | 1,030,512 | | * |

*Less than one percent.

(1) This information is based upon information contained in filings made by the stockholder with the SEC reporting beneficial ownership as of December 31, 2018. The address of The Vanguard Group is 100 Vanguard Blvd., Malvern, Pennsylvania 19355. The Vanguard Group possessed sole voting power over 189,835 shares, shared voting power over 161,620 shares, sole dispositive power over 19,481,623 shares and shared dispositive power over 213,749 shares.

(2) This information is based upon information contained in filings made by the stockholder with the SEC reporting beneficial ownership as of December 31, 2018. The address of BlackRock, Inc. is 55 East 52nd Street, New York, NY 10055. BlackRock, Inc. possessed sole voting power over 16,367,616 shares and sole dispositive power over 16,980,316 shares.

(3) This information is based upon information contained in filings made by the stockholder with the SEC reporting beneficial ownership as of December 31, 2018. Capital Research Global Investors is a division of Capital Research and Management Company. The address of Capital Research Global Investors is 333 South Hope Street, Los Angeles, CA 90071. Capital Research Global Investors possessed sole voting power and sole dispositive power

over 9,431,971 shares.

(4) This information is based upon information contained in filings made by the stockholder with the SEC reporting beneficial ownership as of December 31, 2018. The address of T. Rowe Price Associates, Inc. is 100 E. Pratt Street, Baltimore, MD 21202. T. Rowe Price associates, Inc. possessed sole voting power over 1,226,086 shares and sole dispositive power over 7,216,769 shares.

29

(5) Includes 196,708 unvested restricted stock awards (“RSAs”) and 52,500 common units of limited partnership interest in the Company’s Operating Partnership (“Common Units”). Such Common Units are immediately redeemable for cash or, at the Company‘s election, an equal number of shares of the Company’s common stock.

(6) Includes 68,649 unvested RSAs. Also includes 9,737 shares held in the Company’s deferred compensation plan with respect to which the trustee has voting rights.

(7) Includes 62,834 unvested RSAs and 3,800 Common Units. Such Common Units are immediately redeemable for cash or, at the Company’s election, an equal number of shares of the Company’s common stock.

(8) Includes 49,094 unvested RSAs.

(9) Includes 50,026 unvested RSAs.

(10) Includes 12,720 shares held in the Company’s deferred compensation plan with respect to which the trustee has voting rights.

(11) Includes 3,000 shares held in an individual retirement account for the benefit of Mr. Dawson’s spouse. Mr. Dawson, however, disclaims beneficial ownership of all of the foregoing shares. Also includes 10,289 shares held in the Company’s deferred compensation plan with respect to which the trustee has voting rights.

(12) Includes 7,156 shares held in the Company’s deferred compensation plan with respect to which the trustee has voting rights.

## SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Based solely on a review of Forms 3, 4 and 5 and amendments thereto furnished to us during or with respect to 2018, the Company believes that all SEC filing requirements applicable to directors, officers and beneficial owners of more than 10% of the Company’s common stock were complied with in 2018.

# EXECUTIVE COMPENSATION

## Compensation Committee Report

The Compensation Committee of American Campus Communities, Inc. has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management. Based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

THE COMPENSATION COMMITTEE

Cydney C. Donnell, Chair
G. Steven Dawson
Edward Lowenthal

## Compensation Discussion and Analysis

This Compensation Discussion and Analysis ("CD&A") provides a detailed description of the executive compensation philosophy, objectives and programs, the compensation decisions made under those programs and the factors considered by the Compensation Committee. The CD&A focuses on the compensation of the Named Executive Officers for 2018, who were:

| Name | Title |
|---|---|
| William C. Bayless, Jr. | Chief Executive Officer |
| James C. Hopke, Jr. | President |
| William W. Talbot | Executive Vice President, Chief Investment Officer |
| Jennifer Beese | Executive Vice President, Chief Operating Officer |
| Daniel B. Perry | Executive Vice President, Chief Financial Officer |

As in previous years, Named Executive Officers for 2018 were awarded compensation based on policies that closely link compensation to performance. These policies, in planned combination, generate rewards for achievement of high-level Company and individual performance and discourage excessive short-term risk taking. This balance is essential to align management with the long-term interests of stockholders.

This CD&A discusses the Company, its business and individual measures used in assessing performance. These measures are discussed in the limited context of the executive compensation program. You should not interpret them as statements of the Company's expectations or as any form of guidance. We caution you not to apply the statements or disclosures made in this CD&A in any other context.

### 2018 Performance

The Compensation Committee views performance for compensatory purposes in two primary ways: (1) financial and operating performance including individual goals and objectives and results against the Company's growth targets, and (2) returns to stockholders over time, both on an absolute basis and relative to other companies, including the compensation peer group (see "Compensation Consultant and Benchmarking").

The 2018 compensation decisions made by the Compensation Committee reflect strong alignment between pay and performance with respect to the pre-established measures and goals under the annual cash and long-term equity incentive plans and the performance and contributions of the Named Executive Officers to the Company's financial and operating performance during the year. In determining the incentive compensation paid to the Named Executive Officers for 2018, the Compensation Committee rigorously evaluated Company and individual performance relative to the pre-established measures and goals under the annual cash and long-term equity incentive plans.

In 2018, the Company celebrated its 25th anniversary and continued its long track record of creating value for stockholders. In doing so, we accomplished significant financial and strategic objectives and milestones, including:

- Achieved record levels in total revenue and FFOM;
- Leading the sector in leasing for the 14th consecutive year with a 2018/2019 academic year same store lease-up that achieved 97% occupancy and 3.6% opening rental revenue growth;
- Produced same store NOI growth for the 14th consecutive year (every year since becoming a public company in 2004);
- Delivered ten new owned and presale development projects into service on-schedule, totaling $669.9 million in development cost, the largest development delivery year in the Company's history, with the six owned development projects completed 1% under budget;
- Achieved 97% opening occupancy for the 10 new owned and presale development projects, resulting in full stabilization at opening;
- Awarded ten new on-campus development projects including two American Campus Equity (ACE®) on-campus developments, seven third-party projects, and one project with a transaction structure to be determined;
- Executed an agreement to develop a $615 million, 10,440-bed housing project for college students participating in the Disney College Program, which is currently scheduled to be delivered in multiple phases through 2023;
- Increased the common dividend to $1.84 per share on an annualized basis, the sixth consecutive increase, representing dividend growth of over 36% since 2012.

A reconciliation of net income to FFOM and NOI for the year ended December 31, 2018, is contained in the 2018 Annual Report on Form 10-K and in the earnings release furnished on a Current Report on Form 8-K filed on February 20, 2019.

As discussed more fully below under "2018 Executive Compensation", a majority of the quantitative performance metrics for the cash incentive opportunity were met, and two of the three quantitative performance goals for the equity incentive opportunity were met. The Company did not meet goals related to FFOM, FFOM per share and total NOI primarily due to the strategic decision to execute on dispositions not originally contemplated for the year when 2018 compensation goals were set.

Management recommended the additional dispositions to the Board based on a strategic rationale to take advantage of strong private market valuations for student housing properties and to further strengthen the Company's balance sheet in advance of an increased value-enhancing development pipeline. Management was aware this would negatively impact the performance results for the previously mentioned compensation metrics. The Board took these factors into consideration and determined that this capital allocation strategy was in the best long-term interest of stockholder value. The Compensation Committee took this strategic decision making, and the resulting negative impact to pre-set objective compensation goals, into consideration when determining the award amount granted pursuant to the subjective portion of the executive compensation program.

2018 Changes to the Executive Compensation Program

The Compensation Committee periodically engages an independent compensation consultant to advise on executive compensation trends and best practices, as well as any relevant regulatory updates that may impact our short- and long-term executive compensation programs. The Compensation Committee uses this information to form decisions on executive compensation and to ensure that the overall program continues to provide a strong link between pay and performance.

Based on this review and in response to changing business needs, market best practices and stockholder feedback, the Committee took the actions outlined below to enhance the 2018 executive compensation program. The Committee believes these changes create a stronger and more transparent alignment between pay and performance, and the specific rationale for such changes is more fully discussed below.

Compensation Policies and Practices—Good Governance

Consistent with the Company's commitment to strong corporate governance and responsiveness to stockholders, in 2018 the Board maintained the following compensation policies and practices to drive performance and serve the stockholders' long-term interests:

| | |
|---|---|
| ü DO align pay and performance by linking a substantial portion of compensation to the achievement of pre-established performance measures that drive stockholder value | û DO NOT base incentive awards on a single performance measure, thereby discouraging unnecessary or excessive risk-taking |
| ü DO provide executive officers with the opportunity to earn market-competitive compensation through a mix of cash and equity compensation, with strong emphasis on performance-based incentive awards | û DO NOT provide guaranteed minimum payouts or uncapped award opportunities |
| ü DO have a robust peer selection process and benchmark executive compensation to target the median of the comparative group of peer companies | û DO NOT reprice or permit cash buyouts of underwater stock options |
| ü DO require executive officers and directors to own and retain shares of common stock that have significant value to further align interests with stockholders | û DO NOT provide executive officers with excessive perquisites or other personal benefits |
| ü DO enhance alignment with long-term shareholder value and executive officer retention with 5-year vesting schedules for equity incentive awards earned for prior-year performance | û DO NOT provide executive officers with pension or retirement benefits other than pursuant to a 401(k) plan and a deferred compensation plan |
| ü DO enable the Board to "claw back" incentive compensation in the event of an accounting restatement due to material non-compliance with financial reporting requirements as a result of misconduct by executive officers | û DO NOT permit executive officers or directors to engage in derivative or other hedging transactions in the Company's securities |
| ü DO prohibit new tax gross-up arrangements under anti-tax gross-up policy | û DO NOT provide accelerated vesting upon a change of control under the 2018 Incentive Award Plan |
| ü DO maintain a Compensation Committee comprised solely of independent directors | û DO NOT provide single-trigger change of control benefits |
| ü DO engage an independent compensation consultant to advise the Compensation Committee on executive compensation matters and establishing an appropriate peer group | û DO NOT permit executive officers and directors to hold the Company's securities in margin accounts or to otherwise pledge the securities to secure loans |

2018 Advisory Vote on Executive Compensation

An advisory vote is submitted to stockholders on an annual basis to approve executive compensation. Our stockholders have consistently supported our executive compensation program. At our 2018 Annual Meeting of Stockholders, 93% of the votes cast were voted in favor of our resolution seeking advisory approval of our executive compensation. Over the last five years, stockholder support for our advisory vote on executive compensation has averaged 93%, with no year below 86%. While we have consistently had strong stockholder support for our executive compensation program, the Compensation Committee does use an independent compensation consultant to review the structure of our compensation program, and to assess the effectiveness of our program in aligning executive and stockholder interests.

The Compensation Committee has also continued to evaluate the overall executive compensation program and believes that it is well designed to achieve the objectives of attracting, retaining and motivating talented executives and rewarding superior performance in the context of the business risk environment.

Objectives of the Compensation Program

The Company recognizes that effective compensation strategies are critical to recruiting, incenting and retaining key employees who contribute to long-term success and thereby create value for stockholders. Accordingly, the compensation program is designed to achieve the following primary objectives:

- Attract, retain and motivate talented executives;
- Reward performance that meets or exceeds pre-established Company and tailored individual goals consistent with the Company's strategic plan, while maintaining alignment with stockholders;

- Provide balanced incentives that discourage excessive risk-taking;

- Retain sufficient flexibility to permit executive officers to manage risk and adjust appropriately to meet rapidly changing market and business conditions;
- Evaluate performance by balancing consideration of those measures management can directly influence with market forces that management cannot control (such as monetary policy and interest rate expectations), but that impact stockholder value;
- Encourage executives to become and remain long-term stockholders of the Company; and
- Maintain compensation and corporate governance practices that support the Company's goal to deliver sustained, superior returns to stockholders.

Interests of the executive officers and stockholders are aligned by maintaining a performance- and achievement-oriented environment that provides executives with the opportunity to earn market-competitive levels of cash and equity compensation for strong performance measured against key financial and strategic goals that create long-term stockholder value.

Compensation Consultant and Benchmarking

Prior peer group: In determining 2018 compensation targets for Named Executive Officers, the Compensation Committee considered the competitive positioning of executive compensation levels relative to compensation data for the below list of peer companies with respect to the following components of pay: base salary, cash incentive awards, and long-term equity incentive awards. Consistent with the Company's compensation philosophy, the Compensation Committee generally targeted the median of the peer companies for each of these components and for total compensation. The 2018 executive compensation program was designed to deliver compensation levels above or below these targets if performance exceeded or failed to achieve the goals established for the annual cash and long-term equity incentive awards. This methodology is appropriate for the Company's operating style and reflects the need to attract and retain top executive talent. The peer companies listed below comprise the peer group selected as part of the Company's previous compensation study performed in conjunction with an independent advisor, and was utilized when determining 2018 compensation targets:

| | |
|---|---|
| Apartment Investment and Management Company | Essex Property Trust, Inc. |
| Ashford Hospitality Trust, Inc. | Federal Realty Investment Trust |
| AvalonBay Communities, Inc. | Mid-America Apartment Communities, Inc. |
| Camden Property Trust | Tanger Factory Outlet Centers, Inc. |
| Corporate Office Properties Trust | UDR, Inc. |
| Education Realty Trust, Inc. | Weingarten Realty Investors |
| Equity Residential | |

New peer group: As the Company had maintained its prior peer group for several years, the Compensation Committee determined that it was prudent to reassess the composition of the Company's peer group in 2018 to ensure the design and structure of the compensation program continues to be appropriate and consistent with market developments. As a result, it retained FPL Associates L.P. ("FPL") as its independent consultant to advise on matters related to reassessing the Company's peer group. At the time of the engagement, the Compensation Committee reviewed independence and determined that FPL met the independence criteria under the Compensation Committee charter and that FPL's engagement raised no conflict of interest.

It is important to note that the Company has no publicly traded direct business competitors, particularly when factoring in its specialization in student housing. As such, the Compensation Committee, in consultation with FPL, strived to formulate a peer group that best reflects the following characteristics:

- Industry and business strategy - identify companies with similar business models, philosophies, and investment criteria.
- Ownership structure - include companies organized as publicly traded REITs.

- Size - ensure companies are similar in size and scope, with the primary measure being total capitalization and leasable units under management.
- Operational intensity - identify companies with a comparable number of leasing units administered and similar complexity of diverse business activities and geographic reach.
- Complexity - include companies engaging in transactions of a similar complex nature to transactions undertaken by the Company, such as development activities, joint ventures, and public/private partnerships.
- Talent - identify companies that might attempt to recruit our executives, and determine from which companies we might recruit executives if we needed to externally replace a member of our executive team with an individual possessing similar capabilities.
- Index - consider whether a company is classified within the FTSE NAREIT Residential Index, as well as its relative weighting within the Index.
- Other considerations - identify companies that we compete against for investors, and/or companies whom key analysts and proxy advisory firms name as our peers. Determine which other companies cite us as a peer.

Based on the analysis and considerations provided by FPL, the Compensation Committee has determined that the following 16 companies best represent the characteristics noted above. In order to ensure the goals outlined above were met, the Compensation Committee evaluated both the characteristics of each individual company as well as the composition of the peer group as a whole. Although the following REITs were among the closest in comparison to us, our specialization as the only student housing REIT and our unique operational and market cycles puts us in a unique category. Unlike other companies, the fundamentals that drive success in our business model do not always correlate to broader macroeconomic trends. Additionally, we manage a student housing tenant base that is not directly comparable to the peer companies; as such, our operational characteristics and dynamics are unique. The following companies may individually demonstrate comparability in certain of the criteria noted above, but not in all.

| | |
|---|---|
| *Apartment Investment and Management Company | *Federal Realty Investment Trust |
| *AvalonBay Communities, Inc. | Invitation Homes Inc. |
| *Camden Property Trust | *Mid-America Apartment Communities, Inc. |
| CubeSmart | Ryman Hospitality Properties, Inc. |
| Equity LifeStyle Properties, Inc. | Sun Communities, Inc. |
| *Equity Residential | *Tanger Factory Outlet Centers, Inc. |
| *Essex Property Trust, Inc. | *UDR, Inc. |
| Extra Space Storage, Inc. | *Weingarten Realty Investors |

* Represents companies that were also included in our prior peer group.

After the peer group was finalized, the Compensation Committee then engaged FPL to provide an evaluation of the Company’s overall compensation program design, taking into account the new peer group. As part of this analysis, FPL provided market data and compensation practice information on the new peer group companies, and advised on trends and developments in executive compensation practices and philosophies generally. This new peer group will be utilized by the Compensation Committee when setting the Named Executive Officers’ target compensation mix and levels for 2019.

Compensation Mix

The executive compensation philosophy promotes a compensation mix that emphasizes variable pay and long-term stockholder value. An emphasis on incentive compensation creates greater alignment with the interests of stockholders, ensures that the business strategy is executed by decision-makers in a manner that focuses on the creation of long-term value rather than only short-term results, and encourages prudent evaluation of risks. Accordingly, the compensation structure is designed such that a significant portion of Named Executive Officers’ total direct compensation is in the form of equity awards granted based on past performance that vest over time.

Pay at Risk

The following diagram illustrates the total direct compensation targets of the CEO and each other active Named Executive Officer for 2018. The charts outline the size, in percentage terms, of the targeted direct compensation elements (at the date of grant) pre-established by the Compensation Committee for performance year 2018. CEO target compensation reflects additional weight on long-term equity incentive compensation because the Compensation Committee believes that, due to his leadership role as Chief Executive Officer, his compensation structure should reflect even greater alignment with stockholders. The dark outer band of the charts reflects the incentive or at-risk performance-based components of compensation (e.g., 81% of the CEO’s 2018 target direct compensation was at-risk performance based).

Elements and Philosophy of the Compensation Program

For 2018, the compensation provided to executive officers consisted of the same elements generally available to non-executive officers: base salary; annual cash incentive compensation; long-term equity incentive compensation; and other perquisites and benefits.

PRINCIPAL ELEMENTS OF PAY

The elements of the Company’s executive compensation program are presented below in summary format.

| COMPONENT | FORM | PURPOSE |
| --- | --- | --- |
| Base Salary | Cash | Provide a competitive fixed rate of pay recognizing different levels of responsibility and performance within the Company. |
| Annual Incentive | Performance Cash Award | Reward executives for achieving transactional, operational, financial and strategic objectives. |
| Long-Term Incentive | Performance Shares (RSAs) | Motivate executives to achieve pre-established financial goals, superior TSR performance and tailored individual goals consistent with the Company’s strategic plan. Provides retention benefits and enhanced stockholder alignment. |
| Other Benefits and Perquisites | Health, Welfare and Retirement Programs | Executives are generally eligible to participate in the same benefit programs that are offered to non-executive employees. Company benefits are designed to provide market competitive benefits to protect employees’ and their covered dependents’ health and welfare and provide retirement benefits. |

Base Salary. The base salary payable to each Named Executive Officer provides a fixed component of compensation that reflects the executive's position and responsibilities. Base salary is generally targeted to approximate the competitive market median of the peer companies, but may deviate from this target based on an individual's sustained performance, contributions, leadership, experience, expertise and specific roles within the Company as compared to the benchmark data. The Compensation Committee reviews base salaries annually and may make adjustments to better match competitive market levels or to recognize an executive's professional growth and development or increased responsibilities. The Compensation Committee also considers the success of each executive officer in developing and executing on strategic plans, exercising leadership and creating stockholder value.

In determining base salaries for the Named Executive Officers, the Compensation Committee analyzes base salary information of the peer companies. Although the Compensation Committee periodically considers information from REIT industry and other compensation surveys, it places primary emphasis on publicly available data from the peer companies' proxy statements and other SEC filings, which is more detailed by individual executive officer position than the data typically provided in compensation surveys.

Annual Cash Incentive Compensation. Named Executive Officers are provided with an annual opportunity to earn cash incentive awards. For each Named Executive Officer, annual cash incentive compensation reflects the achievement of pre-established measures related to transactional, operational, financial and strategic objectives that serve as the underlying assumptions in the Company's stated earnings guidance such as NOI and rental revenue growth, operating margin improvement, the achievement of targeted development yields, quality external growth, and targeted dispositions. The Compensation Committee also considers each executive's individual performance, departmental performance, and the overall performance of the Company.

Long-Term Equity Incentive Compensation. The Compensation Committee and the independent members of the Board continually evaluate the long-term incentive plan in the context of the overall executive compensation program, the Company's business needs and feedback from stockholders. This process includes assessing the level of discretion permitted in evaluating the performance of and objectives achieved by the Named Executive Officers. The Compensation Committee has concluded that a significant portion of each Named Executive Officer's long-term equity incentive awards will be determined based on the achievement of pre-established quantitative performance metrics that are not subject to Compensation Committee discretion. These specific performance factors are aligned with the Company's business strategy and current market conditions and are based on objective, quantifiable measures. Such factors include absolute and relative TSR and FFOM per share achieved.

In addition, when assessing the weight that should be placed on discretionary and subjective measures of performance, the Compensation Committee also considers the importance of maintaining flexibility in the evaluation of long-term performance. While measuring performance relative to objective metrics is important and is a key part of the overall long-term incentive program, the Compensation Committee philosophically believes it is important to also assess more intangible accomplishments such as leadership development and overall execution of the Company's mission and long-term strategic business plan which can include decisions that may impact the ability to meet certain objective metrics. Examples include strategic reinvestment in technology and systems and capital allocation decisions such as opportunistic dispositions of properties that were not originally contemplated when establishing objective compensation metrics for the year. The flexibility permitted in the subjective portion of the compensation program allows management to adjust to meet rapidly changing market and business conditions and to act in the in the best interests of stockholders to create, and preserve, long-term value for the Company's stakeholders. Additionally, the Compensation Committee believes that having rigid goals and formulaic determinations of performance for the entire long-term incentive opportunity may increase compensation risk by encouraging a narrow focus that may be inappropriate in light of these industry and strategic considerations.

When evaluating a suitable allocation between such objective and subjective measures of performance, the Compensation Committee concluded that a 50/50 split between a formulaic objective evaluation of performance and a more qualitative subjective evaluation provides the appropriate incentive structure and balance to drive long-term stockholder value and discourage excessive risk-taking. The Company is the only publicly traded student housing REIT, and is therefore uniquely impacted by different market cycles as compared to other REITs. In a constantly evolving business environment, certain of the objective performance measures may not be met for a fiscal year due to strategic business decisions made in the best interest of long-term stockholder value. Additionally, the specialized nature of student housing involves a rigorous annual lease-up process, managing customer service for a unique tenant base, continually fostering University relationships, and managing an employee base much larger than most companies of similar size due to the need for higher staffing levels (including student Community

Assistants) at our properties.  For these reasons, the Compensation Committee deems it important to retain a certain level of discretion in evaluating performance, having the flexibility to discretionarily adjust incentive awards to take into account the Company's unique and specialized dynamics. The Compensation Committee believes that this 50/50 approach is instrumental in driving consistent, superior total returns to stockholders and limiting risk in the executive compensation program.

Unlike companies that grant equity awards on a prospective basis prior to performance, the Company's long-term equity incentive plan is retrospective in nature, such that equity awards are granted following the satisfaction of specified performance goals. Similar to annual cash incentive awards, the grant and value of long-term equity incentive awards are approved at the beginning of each fiscal year and determined solely by performance achieved in the preceding fiscal year. If threshold performance has not been achieved with respect to a performance goal for a particular performance period, the portion of the long-term equity incentive awards based on that performance goal is not granted for that period. Therefore, at the time of their grant, long-term equity incentive awards have been fully earned and are not subject to additional performance-based vesting requirements. These awards vest over a five-year period, furnishing retention benefits and creating significant long-term alignment with stockholders by incentivizing each Named Executive Officer to identify and accomplish long-term business objectives that generate value through stock price appreciation and dividend growth.

Because of the retrospective nature of the long-term equity incentive plan and the SEC's disclosure rules, the 2019 long-term equity incentive awards granted to Named Executive Officers do not appear in the 2018 Summary Compensation Table, but will be reflected in next year's Summary Compensation Table as RSAs granted in 2019.

2018 Executive Compensation

The Compensation Committee considered all of the factors established under the executive compensation program for 2018 and has discretion to consider other relevant factors, although it places the greatest emphasis on the factors noted in the "2018 Base Salary," "2018 Annual Cash Incentive Awards" and "2018 Long-Term Equity Incentive Awards" sections below.

The table below sets forth total direct compensation (base salary + annual cash incentive award + long-term equity incentive award) of each active Named Executive Officer for 2018, 2017 and 2016, consistent with the manner in which the Compensation Committee evaluates executive compensation and pay-for-performance alignment. This table differs from compensation reported in the 2018 Summary Compensation Table in that it reflects the value of Named Executive Officers' long-term equity incentive awards in the performance year for which they were earned, rather than the year in which they were granted (e.g., long-term equity incentive awards granted in January 2019 for 2018 performance are shown in the table below as 2018 compensation). While compensation reported in the 2018 Summary Compensation Table is useful, the SEC's disclosure rules do not take into account the retrospective nature of the Company's executive compensation program and therefore create a one-year lag between the value of Named Executive Officers' long-term equity incentive awards and the performance year for which they were earned (e.g., long-term equity incentive awards granted in January 2019 for 2018 performance will not be shown in the Summary Compensation Table until the 2020 Proxy Statement as 2019 compensation). This table supplements, and does not replace, the 2018 Summary Compensation Table.

SUPPLEMENTAL COMPENSATION TABLE REFLECTING THE RETROSPECTIVE LONG-TERM INCENTIVE PLAN

| Name | Performance Year | Salary | Annual Cash Incentive Award | Value of Long-Term Equity Incentive Award | Total Direct Compensation[1] |
|---|---|---|---|---|---|
| William C. Bayless, Jr. | 2018 | $790,500 | $1,100,000 | $3,230,000 | $ 5,120,500 |
| | 2017 | 775,000 | 875,000 | 2,325,000 | 3,975,000 |
| | 2016 | 760,000 | 1,100,000 | | |

Level II

Level III

Netting (1)

Total
Assets:

Financial instruments and other inventory positions owned:

Corporate securities:

Equity securities
$
3,180

$
13,298

$
—

$
—

$
16,478

Convertible securities
—

44,978

—

—

44,978

Fixed income securities
—

33,668

—

—

33,668

Municipal securities:

Taxable securities
—

164,059

—

—

164,059

Tax-exempt securities
—

416,760

1,429

—

418,189

Short-term securities
—

67,672

656

—

68,328

Asset-backed securities
—

24

116,171

—

116,195

U.S. government agency securities
—

304,259

—

—

304,259

U.S. government securities
4,966

—

—

—

4,966

Derivative contracts
—

595,486

827

(555,838
)

40,475

Total financial instruments and other inventory positions owned:
8,146

1,640,204

119,083

(555,838
)

1,211,595

Cash equivalents
51,346

—

—

—

51,346

Investments
5,810

—

33,245

—

39,055

Total assets
$
65,302

$
1,640,204

$
152,328

$
(555,838
)

$
1,301,996

Liabilities:

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

Corporate securities:

| | | | | | |
|---|---|---|---|---|---|
| Equity securities | $ 25,362 | $ 1,728 | $ — | $ — | $ 27,090 |
| Convertible securities | — | 1,015 | — | — | 1,015 |
| Fixed income securities | — | 19,314 | — | — | 19,314 |
| Municipal securities: | | | | | |

Short-term securities
—

60

—

—

60

U.S. government agency securities
—

73,724

—

—

73,724

U.S. government securities
231,043

—

—

—

231,043

Derivative contracts
—

569,764

5,218

(570,027
)

4,955

Total financial instruments and other inventory positions sold, but not yet purchased:
$
256,405

$
665,605

$
5,218

$
(570,027
)

$
357,201

(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 $153.8 million and $152.3 million, or 9.6 percent and 11.7 percent of financial instruments measured at fair value at March 31, 2013 and December 31, 2012, 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 three months ended March 31, 2013.

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

The following tables summarize the changes in fair value associated with Level III financial instruments during the three months ended March 31, 2013 and 2012:

| (Dollars in thousands) | Balance at December 31, 2012 | Purchases | Sales | Transfers in | Transfers out | Realized gains/ (losses) (1) | Unrealized gains/ (losses) (1) | Balance at March 31, 2013 |
|---|---|---|---|---|---|---|---|---|
| Assets: | | | | | | | | |
| Financial instruments and other inventory positions owned: | | | | | | | | |
| Municipal securities: | | | | | | | | |
| Tax-exempt securities | $ 1,429 | $1 | $— | $— | $— | $ (266 ) | $ 267 | $1,431 |
| Short-term securities | 656 | — | — | — | — | — | — | 656 |
| Asset-backed securities | 116,171 | 185,659 | (203,606 ) | — | — | 15,265 | (5,835 ) | 107,654 |
| Derivative contracts | 827 | — | (13 ) | — | — | — | 1,558 | 2,372 |
| Total financial instruments and other inventory positions owned: | 119,083 | 185,660 | (203,619 ) | — | — | 14,999 | (4,010 ) | 112,113 |
| Investments | 33,245 | 5,362 | — | — | — | 4 | 3,042 | 41,653 |
| Total assets | $ 152,328 | $191,022 | $(203,619) | $— | $— | $ 15,003 | $ (968 ) | $153,766 |
| Liabilities: | | | | | | | | |
| Financial instruments and other inventory positions sold, but not yet purchased: | | | | | | | | |
| Derivative contracts | $ 5,218 | $(5,650 ) | $— | $— | $— | $ 5,637 | $ (4,806 ) | $399 |
| Total financial instruments and other inventory positions sold, but not yet purchased: | $ 5,218 | $(5,650 ) | $— | $— | $— | $ 5,637 | $ (4,806 ) | $399 |

(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 other income/(loss) on the consolidated statements of operations.

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

| (Dollars in thousands) | Balance at December 31, 2011 | Purchases | Sales | Transfers in | Transfers out | Realized gains/ (losses) (1) | Unrealized gains/ (losses) (1) | Balance at March 31, 2012 |
|---|---|---|---|---|---|---|---|---|
| Assets: | | | | | | | | |
| Financial instruments and other inventory positions owned: | | | | | | | | |
| Corporate securities: | | | | | | | | |
| Convertible securities | $ — | $— | $— | $2,250 | $— | $ — | $ 346 | $2,596 |
| Fixed income securities | 2,815 | 38,433 | (37,138) | 226 | — | 50 | (111) | 4,275 |
| Municipal securities: | | | | | | | | |
| Tax-exempt securities | 3,135 | 1,550 | (1,340) | — | — | (381) | 75 | 3,039 |
| Short-term securities | 175 | 2,700 | — | — | — | — | (945) | 1,930 |
| Asset-backed securities | 53,088 | 99,232 | (83,941) | — | — | (357) | 1,725 | 69,747 |
| Derivative contracts | — | — | — | — | — | — | 2,046 | 2,046 |
| Total financial instruments and other inventory positions owned: | 59,213 | 141,915 | (122,419) | 2,476 | — | (688) | 3,136 | 83,633 |
| Investments | 21,341 | — | (3) | — | — | 3 | (654) | 20,687 |
| Total assets | $ 80,554 | $141,915 | $(122,422) | $2,476 | $— | $ (685) | $ 2,482 | $104,320 |
| Liabilities: | | | | | | | | |
| Financial instruments and other inventory positions sold, but not yet purchased: | | | | | | | | |
| Corporate securities: | | | | | | | | |
| Convertible securities | $ 1,171 | $— | $— | $— | $(1,171) | $ — | $ — | $— |
| Fixed income securities | 900 | (897) | — | — | — | (49) | 46 | — |
| Derivative contracts | 3,594 | (2,911) | — | — | — | 2,911 | (99) | 3,495 |
| Total financial instruments and other inventory positions sold, but not yet purchased: | $ 5,665 | $(3,808) | $— | $— | $(1,171) | $ 2,862 | $ (53) | $3,495 |

(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 other income/(loss) on the consolidated statements of operations.

The carrying values of some of the Company’s financial instruments approximate fair value due to their liquid or short-term nature. Such financial assets and financial liabilities include 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.

Note 7 Variable Interest Entities

In the normal course of business, the Company periodically creates or transacts with entities that are investment vehicles organized as partnerships or limited liability companies. 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 of the members. The Company has investments in and/or acts as the managing partner of these entities. In certain instances, the Company provides management and investment advisory services for which it earns fees generally based upon the market value of assets under management and may include incentive fees based upon performance. The Company’s aggregate investments in these investment vehicles totaled $107.4 million and $96.9 million at March 31, 2013 and December 31, 2012, respectively, and are recorded in other assets on the consolidated statements of financial condition. The Company’s remaining capital commitments to these entities was $41.3 million at March 31, 2013.

Variable interest entities (“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 FASB ASU No. 2010-10, "Consolidation: Amendments for Certain Investment Funds," ("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 $0.7 billion and $0.8 billion at March 31, 2013 and December 31, 2012, respectively. The Company's exposure to loss from these VIEs is $5.9 million, which is the carrying value of its capital contributions recorded in other assets on the consolidated statements of financial condition at March 31, 2013. The Company had no liabilities related to these VIEs at March 31, 2013 and December 31, 2012.

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 March 31, 2013.

Note 8 Receivables from and Payables to Brokers, Dealers and Clearing Organizations

Amounts receivable from brokers, dealers and clearing organizations included:

| (Dollars in thousands) | March 31, 2013 | December 31, 2012 |
|---|---|---|
| Receivable arising from unsettled securities transactions | $45,992 | $66,426 |
| Deposits paid for securities borrowed | 28,845 | 32,163 |
| Receivable from clearing organizations | 12,542 | 17,655 |
| Deposits with clearing organizations | 40,318 | 24,717 |
| Securities failed to deliver | 10,086 | 5,440 |
| Other | 27,782 | 1,716 |
| | $165,565 | $148,117 |

Amounts payable to brokers, dealers and clearing organizations included:

| (Dollars in thousands) | March 31, 2013 | December 31, 2012 |
|---|---|---|
| Payable arising from unsettled securities transactions | $83,695 | $24,643 |
| Payable to clearing organizations | 5,087 | 5,763 |
| Securities failed to receive | 2,603 | 7,459 |
| Other | 12,884 | 22,290 |
| | $104,269 | $60,155 |

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 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 will also use an unaffiliated third party custodian to administer the underlying collateral for certain of its repurchase agreements and short-term financing to mitigate risk.

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

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 $230.2 million and $186.1 million at March 31, 2013 and December 31, 2012, respectively, of which $217.9 million and $174.4 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 related collateral pledged and the interest rate charged by the Company’s counterparty, which is based on LIBOR plus an applicable margin, as of March 31, 2013:

| (Dollars in thousands) | Repurchase Liabilities | Fair Market Value | Interest Rate |
|---|---|---|---|
| On demand maturities: | | | |
| U.S. government agency securities | $182,297 | $194,138 | 0.30 - 0.45% |

Securities purchased under agreements to resell (reverse repurchase agreements), securities sold under agreements to repurchase (repurchase agreements) and securities borrowed and loaned are reported on a net basis by counterparty when a legal right of offset exists.

The following tables provide information on the gross and net amounts of recognized assets and liabilities for the Company's reverse repurchase agreements, securities borrowed and repurchase agreements, and items not offset on the consolidated statements of financial condition but available for offset in the event of default or termination of any one contract at March 31, 2013:

| (Dollars in thousands) Description | Gross Recognized Assets | Gross Amounts Offset on the Consolidated Statements of Financial Condition | Net Amounts Presented on the Consolidated Statements of Financial Condition | Gross Amounts Not Offset on the Consolidated Statements of Financial Condition: Financial Instruments | Collateral Received (1) | Net Amount |
|---|---|---|---|---|---|---|
| Reverse repurchase agreements | $195,196 | $(99,257) | $95,939 | $— | $(95,939) | $— |
| Securities borrowing (3) | 28,845 | — | 28,845 | — | (28,845) | — |

| (Dollars in thousands) Description | Gross Recognized Liabilities | Gross Amounts Offset on the Consolidated Statements of Financial Condition | Net Amounts Presented on the Consolidated Statements of Financial Condition | Gross Amounts Not Offset on the Consolidated Statements of Financial Condition: Financial Instruments | Collateral Pledged (2) | Net Amount |
|---|---|---|---|---|---|---|
| Repurchase agreements (1) | $182,297 | $(99,257) | $83,040 | $— | $(83,040) | $— |

Includes securities received by the Company from the counterparty. These securities are not included on the consolidated statements of financial condition unless there is an event of default.

(2) Includes the fair value of securities pledged by the Company to the counterparty. These securities are included on the consolidated statements of financial condition unless the Company defaults.

(3) Securities borrowing transactions are included in receivables from brokers, dealers and clearing organizations on the consolidated statements of financial condition. See Note 8 for additional information on receivables from brokers, dealers and clearing organizations.

There were no gross amounts offset on the consolidated statements of financial condition for reverse repurchase agreements, securities borrowing or repurchase agreements at December 31, 2012 as a legal right of offset did not exist. There were also no amounts outstanding related to securities lending arrangements at March 31, 2013 and December 31, 2012, respectively. See Note 5 for information regarding the gross and net amounts of recognized assets and liabilities for the Company's derivative contracts.

22

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

Note 10 Other Assets

Other assets include net deferred income tax assets, proprietary investments, income tax receivables and prepaid expenses. The Company’s investments include investments in private companies and partnerships, warrants of public and private companies and private company debt. Other assets included:

| (Dollars in thousands) | March 31, 2013 | December 31, 2012 |
|---|---|---|
| Net deferred income tax assets | $21,552 | $33,622 |
| Investments at fair value | 48,044 | 39,055 |
| Investments at cost | 25,132 | 26,364 |
| Investments accounted for under the equity method | 19,978 | 20,353 |
| Income tax receivables | 12,679 | 5,448 |
| Prepaid expenses | 3,694 | 3,840 |
| Other | 1,247 | 1,015 |
| Total other assets | $132,326 | $129,697 |

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 March 31, 2013, investments carried on a cost basis had an estimated fair market value of $41.8 million. The estimated fair value of these investments was measured using discounted cash flow models that utilize market data for comparable companies (e.g., multiples of revenue and earnings before interest, taxes, depreciation and amortization ("EBITDA")). Because valuation adjustments, based upon management’s judgment, were made to account for differences between the measured security and comparable securities, 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 ultimately 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 11 Goodwill and Intangible Assets

The following table presents the changes in the carrying value of goodwill and intangible assets from continuing operations for the three months ended March 31, 2013:

| (Dollars in thousands) | Asset Management |
|---|---|
| Goodwill | |
| Balance at December 31, 2012 | $196,844 |
| Goodwill acquired | — |
| Impairment charge | — |
| Balance at March 31, 2013 | $196,844 |

| | |
|---|---|
| Intangible assets | |
| Balance at December 31, 2012 | $41,258 |
| Amortization of intangible assets | (1,661) |
| Balance at March 31, 2013 | $39,597 |

23

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

Note 12 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 | |
|---|---|---|---|---|
| | March 31, | December 31, | March 31, | December 31, |
| (Dollars in thousands) | 2013 | 2012 | 2013 | 2012 |
| Commercial paper (secured) | $264,099 | $304,439 | 1.51% | 1.65% |
| Prime broker arrangement | 75,919 | 172,575 | 0.97% | 0.98% |
| Bank lines (secured) | 69,000 | — | 1.50% | N/A |
| Total short-term financing | $409,018 | $477,014 | | |

The Company issues secured commercial paper to fund a portion of its securities inventory. The secured commercial paper notes (“CP Notes”) are issued with maturities of 28 days to 270 days from the date of issuance. The CP Notes are issued under two separate programs, CP Series A and CP Series II A, and are secured by different inventory classes. As of March 31, 2013, the weighted average maturity of CP Series A and CP Series II A was 102 days and 99 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.

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 funding is at the discretion of the prime broker.

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 March 31, 2013 consisted of a one-year $250 million committed revolving credit facility with U.S. Bank, N.A., which was renewed in December 2012. 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 a minimum net capital of $120 million, and the unpaid principal amount of all advances under this facility will be due on December 28, 2013. The Company pays a nonrefundable commitment fee on the unused portion of the facility on a quarterly basis. At March 31, 2013, the Company had no advances against this line of credit.

The Company’s uncommitted secured lines at March 31, 2013 totaled $175 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 March 31, 2013, the Company had $69.0 million in advances against these lines of credit.

Note 13 Variable Rate Senior Notes

On November 30, 2012, the Company entered into a note purchase agreement (“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 PIMCO. The Notes consist of two classes, Class A Notes and Class B Notes, with principal amounts of $50 million and $75 million, respectively. The Class A Notes bear interest at a rate equal to three-month LIBOR plus 4.00 percent and mature on May 31, 2014. The Class B Notes 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 are not subject to prepayment at the Company's discretion. The proceeds from the Notes were used to repay the outstanding balance under the bank syndicated credit agreement (“Credit Agreement”) discussed in Note 14. The remaining proceeds are being used for general corporate purposes.

The 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 Note Purchase Agreement proving untrue in any material respect when made by the Company, failure to comply with the covenants in the 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 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 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 March 31, 2013, the Company was in compliance with all covenants.

The Notes are recorded at amortized cost. As of March 31, 2013, the carrying value of the Notes approximates fair value.

Note 14 Bank Syndicated Financing

On December 29, 2010, the Company entered into a three-year Credit Agreement comprised of a $100 million amortizing term loan and a $50 million revolving credit facility. SunTrust Bank was the administrative agent (“Agent”) for the lenders. The interest rate for borrowing under the Credit Agreement was, at the option of the Company, equal to LIBOR or a base rate, plus an applicable margin, adjustable and payable quarterly at a minimum. The base rate was defined as the highest of the Agent’s prime lending rate, the Federal Funds Rate plus 0.50 percent or one-month LIBOR plus 1.00 percent. The applicable margin varied from 1.50 percent to 3.00 percent and was based on the Company’s leverage ratio. In addition, the Company also paid a nonrefundable commitment fee of 0.50 percent on the unused portion of the revolving credit facility on a quarterly basis. The outstanding balance and unpaid interest on the Credit Agreement was repaid on November 30, 2012 from the proceeds of the Notes discussed in Note 13.

Note 15 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 and except for the legal proceeding described below, as to which management believes a material loss is reasonably possible, 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.

The Company has a contingency as to which management of the Company believes that a material loss is reasonably possible. The U.S. Department of Justice Antitrust Division, the SEC and various state attorneys general are conducting broad investigations of numerous firms, including the Company, for possible antitrust and securities violations in connection with the bidding or sale of guaranteed investment contracts and derivatives to municipal issuers from the early 1990s to date. These investigations commenced in November 2006. In addition, several class action complaints were brought on behalf of a proposed class of government entities that purchased municipal derivatives. The complaints, which have been consolidated into a single class action, 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. Several California municipalities also brought separate class action complaints in California federal court, and approximately 18 California municipalities and two New York municipalities filed individual lawsuits that are not part of class actions, all of which have been transferred to the Southern District of New York and consolidated for pretrial purposes. 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, there is uncertainty as to the likelihood of a class or classes being certified or the ultimate size of any class if certified, and there are significant factual issues to be resolved.

Note 16 Shareholders’ Equity

Share Repurchases

In the third quarter of 2012, the Company’s board of directors authorized the repurchase of up to $100.0 million in common shares through September 30, 2014. This share repurchase authorization became effective on October 1, 2012. During the three months ended March 31, 2013, the Company did not repurchase any shares of the Company’s common stock related to this authorization. The Company has $95.4 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 340,789 shares or $13.9 million of the Company’s common stock for this purpose during the three months ended March 31, 2013.

Issuance of Shares

During the three months ended March 31, 2013, the Company issued 96,049 common shares out of treasury stock in fulfillment of $3.9 million in obligations under the Piper Jaffray Companies Retirement Plan (the “Retirement Plan”) and issued 669,221 common shares out of treasury stock as a result of employee vesting and exercise transactions. During the three months ended March 31, 2012, the Company issued 165,241 common shares out of treasury stock in fulfillment of $3.8 million in obligations under the Retirement Plan and issued 724,857 common shares out of treasury stock as a result of employee vesting.

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

Note 17 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 $93.1 million, a merchant banking fund of $8.7 million and private equity investment vehicles aggregating $7.5 million as of March 31, 2013. As of December 31, 2012, noncontrolling interests included the minority equity holders' proportionate share of the equity in a municipal bond fund of $43.7 million, a merchant banking fund of $6.4 million and private equity investment vehicles aggregating $6.8 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 three months ended March 31, 2013 and 2012, respectively.

| (Dollars in thousands) | Common Shareholders' Equity | Noncontrolling Interests | Total Shareholders' Equity |
|---|---|---|---|
| Balance at December 31, 2012 | $733,292 | $56,883 | $790,175 |
| Net income | 10,146 | 1,901 | 12,047 |
| Amortization/issuance of restricted stock | 19,074 | — | 19,074 |
| Repurchase of common stock for employee tax withholding | (13,929) | — | (13,929) |
| Issuance of treasury shares for 401k match | 3,939 | — | 3,939 |
| Shares reserved to meet deferred compensation obligations | 60 | — | 60 |
| Other comprehensive loss | (148) | — | (148) |
| Fund capital contributions | — | 50,562 | 50,562 |
| Balance at March 31, 2013 | $752,434 | $109,346 | $861,780 |

27

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

Note 18 Compensation Plans

Stock-Based Compensation Plans

The Company maintains two stock-based compensation plans, the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan (the "Incentive Plan") and the 2010 Employment Inducement Award Plan (the "Inducement Plan"). The Company's equity awards are recognized on the consolidated statements of operations at grant date fair value over the service period of the award, net of estimated forfeitures.

The following table provides a summary of the Company's outstanding equity awards (in shares or units) as of March 31, 2013:

| | |
|---|---|
| Incentive Plan | |
| Restricted Stock Shares | |
| Annual grants | 901,274 |
| Sign-on grants | 284,438 |
| Retention grants | 45,032 |
| Performance grants | 217,457 |
| | 1,448,201 |
| Inducement Plan | |
| Restricted Stock Shares | 58,310 |
| Total restricted stock shares related to compensation | 1,506,511 |
| ARI deal consideration (1) | 220,456 |
| Total restricted stock shares outstanding | 1,726,967 |
| Incentive Plan | |
| Restricted Stock Units | |
| Leadership grants | 173,271 |
| Incentive Plan | |
| Stock options outstanding | 479,726 |

(1) The Company issued restricted stock as part of deal consideration in conjunction with the acquisition of ARI.

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 7.0 million shares of common stock (1.2 million shares remained available for future issuance under the Incentive Plan as of March 31, 2013). 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 receive restricted stock upon initial hiring or as a retention award (“Sign-on Grants”). The Company has also granted incremental restricted stock awards with service conditions to key employees (“Retention Grants”) and restricted stock with performance conditions to members of senior management (“Performance Grants”).

The Company's Annual Grants are made each year in February. Prior to 2011, Annual Grants had three-year cliff vesting periods. Beginning in 2011, 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 2012 for its February 2013 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. The Company recorded $0.3 million and $0.8 million of forfeitures through compensation and benefits expense within continuing operations for the three months ended March 31, 2013 and 2012, respectively.

Sign-on Grants are used as a recruiting tool for new employees and are issued to current employees as a retention tool. The majority of these awards have three-year cliff vesting terms and 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. Employees forfeit unvested shares upon termination of employment and a reversal of compensation expense is recorded.

Retention Grants are subject to ratable vesting based upon a five-year service requirement and are amortized as compensation expense on a straight-line basis from the 2008 grant date over the requisite service period, which ends May 2013. Employees forfeit unvested retention shares upon termination of employment and a reversal of compensation expense is recorded.

Performance-based restricted stock awards granted in 2008 and 2009 cliff vest upon meeting a specific performance-based metric prior to May 2013. Performance Grants are amortized on a straight-line basis over the period the Company expects the performance target to be met. The performance condition must be met for the awards to vest and total compensation cost will be recognized only if the performance condition is satisfied. The probability that the performance conditions will be achieved and that the awards will vest is reevaluated each reporting period with changes in actual or estimated outcomes accounted for using a cumulative effect adjustment to compensation expense. In 2010, the Company deemed it improbable that the performance condition related to the Performance Grants would be met. As a result, the Company recorded a $6.6 million cumulative effect compensation expense reversal within continuing operations in the third quarter of 2010. As of March 31, 2013, management continues to believe it is improbable that the performance condition will be met prior to the expiration of the award.

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

On May 15, 2012, the Company granted restricted stock units to its leadership team (“Leadership Grants”). The units will vest and convert to shares of common stock at the end of the 36-month performance period only if the Company satisfies predetermined market conditions over the performance period that began on May 15, 2012 and ends on May 14, 2015. Under the terms of the grant, the number of units that will vest and convert to shares will be based on the Company achieving specified market conditions during the 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 award on the grant date was determined using a Monte Carlo simulation, which assumed a risk-free interest rate of 0.38 percent and expected stock price volatility of 47.6 percent. 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 rate was determined based on three-year U.S. Treasury bond yields.

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

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 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 vest ratably over five years in equal annual installments ending on March 1, 2015. Inducement Plan awards are amortized as compensation expense on a straight-line basis over the vesting period. Employees forfeit unvested Inducement Plan shares upon termination of employment and a reversal of compensation expense is recorded.

Stock-Based Compensation Activity

The Company recorded total compensation expense within continuing operations of $0.9 million and $0.8 million for the three months ended March 31, 2013 and 2012, 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, Retention and Leadership Grants, less forfeitures. The tax benefit related to stock-based compensation costs totaled $0.4 million and $0.3 million  for the three months ended March 31, 2013 and 2012, respectively.

The following table summarizes the changes in the Company's unvested restricted stock (including the unvested restricted stock issued as part of the deal consideration for ARI) under the Incentive Plan and Inducement Plan for the three months ended March 31, 2013:

| | Unvested Restricted Stock (in Shares) | | Weighted Average Grant Date Fair Value |
|---|---|---|---|
| December 31, 2012 | 2,322,438 | | $37.01 |
| Granted | 438,411 | | 41.01 |
| Vested | (1,030,038 | ) | 40.70 |
| Cancelled | (3,844 | ) | 36.07 |
| March 31, 2013 | 1,726,967 | | $35.77 |

The following summarizes the changes in the Company's unvested restricted stock units under the Incentive Plan for the three months ended March 31, 2013:

| | Unvested Restricted Stock Units | Weighted Average Grant Date Fair Value |
|---|---|---|

| | | |
|---|---|---|
| December 31, 2012 | 173,271 | $12.12 |
| Granted | — | — |
| Vested | — | — |
| Cancelled | — | — |
| March 31, 2013 | 173,271 | $12.12 |

As of March 31, 2013, there was $7.6 million of total unrecognized compensation cost related to restricted stock and restricted stock units expected to be recognized over a weighted average period of 1.74 years.

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

The following table summarizes the changes in the Company's outstanding stock options for the three months ended March 31, 2013:

| | Options Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (in Years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| December 31, 2012 | 486,563 | $ 44.76 | 2.9 | $94,150 |
| Granted | — | — | | |
| Exercised | — | — | | |
| Cancelled | (6,837) | 41.83 | | |
| March 31, 2013 | 479,726 | $ 44.80 | 2.7 | $147,340 |
| Options exercisable at March 31, 2013 | 479,726 | $ 44.80 | 2.7 | $147,340 |

As of March 31, 2013, there was no unrecognized compensation cost related to stock options expected to be recognized over future years.

The fair value of options exercised, cash received from option exercises and the resulting tax benefit realized for the tax deductions from option exercises were immaterial for the three months ended March 31, 2013 and 2012, respectively.

Deferred Compensation Plan

In 2012, the Company established the Piper Jaffray Companies Mutual Fund Restricted Share Investment Plan, 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 or other equity, 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.

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

Note 19 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 applicable to Piper Jaffray Companies' common shareholders by the weighted average number of common shares outstanding for the period. Net income applicable to Piper Jaffray Companies' common shareholders represents net income applicable to Piper Jaffray Companies reduced by the allocation of earnings to participating securities. 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 March 31, | | | |
|---|---|---|---|---|
| (Amounts in thousands, except per share data) | 2013 | | 2012 | |
| Income from continuing operations applicable to Piper Jaffray Companies | $10,667 | | $6,232 | |
| Loss from discontinued operations, net of tax | (521 | ) | (3,303 | ) |
| Net income applicable to Piper Jaffray Companies | 10,146 | | 2,929 | |
| Earnings allocated to participating securities (1) | (1,180 | ) | (449 | ) |
| Net income applicable to Piper Jaffray Companies' common shareholders (2) | $8,966 | | $2,480 | |
| | | | | |
| Shares for basic and diluted calculations: | | | | |
| Average shares used in basic computation | 15,582 | | 16,072 | |
| Stock options | 28 | | — | |
| Average shares used in diluted computation | 15,610 | | 16,072 | |
| | | | | |
| Earnings/(loss) per basic common share: | | | | |
| Income from continuing operations | $0.60 | | $0.33 | |
| Loss from discontinued operations | (0.03 | ) | (0.17 | ) |
| Earnings per basic common share | $0.58 | | $0.15 | |
| | | | | |
| Earnings/(loss) per diluted common share: | | | | |
| Income from continuing operations | $0.60 | | $0.33 | |
| Loss from discontinued operations | (0.03 | ) | (0.17 | ) |
| Earnings per diluted common share | $0.57 | | $0.15 | |

(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 2,055,679 and 2,910,808 for the three months ended March 31, 2013 and 2012, respectively.

(2) Net income applicable to Piper Jaffray Companies' common shareholders for diluted and basic EPS may differ under the two-class method as a result of adding the effect of the assumed exercise of stock options 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 three months ended March 31, 2013 and 2012.

Note 20 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. The financial management of assets is performed on an enterprise-wide basis. As such, assets are not assigned to the business segments.

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

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

Reportable segment financial results from continuing operations are as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| (Dollars in thousands) | 2013 | 2012 |
| Capital Markets | | |
| Investment banking | | |
| Financing | | |
| Equities | $14,303 | $23,228 |
| Debt | 17,032 | 14,769 |
| Advisory services | 9,556 | 10,722 |
| Total investment banking | 40,891 | 48,719 |
| Institutional sales and trading | | |
| Equities | 20,735 | 20,980 |
| Fixed income | 28,043 | 28,463 |
| Total institutional sales and trading | 48,778 | 49,443 |
| Other income/(loss) | 1,540 | (1,367) |
| Net revenues | 91,209 | 96,795 |
| Operating expenses | 78,458 | 86,055 |
| Segment pre-tax operating income | $12,751 | $10,740 |
| Segment pre-tax operating margin | 14.0 % | 11.1 % |
| Asset Management | | |
| Management and performance fees | | |
| Management fees | $17,098 | $15,849 |
| Performance fees | 351 | 424 |
| Total management and performance fees | 17,449 | 16,273 |
| Other income | 875 | 370 |
| Net revenues | 18,324 | 16,643 |
| Operating expenses (1) | 12,907 | 12,161 |
| Segment pre-tax operating income | $5,417 | $4,482 |
| Segment pre-tax operating margin | 29.6 % | 26.9 % |

| | | | | |
|---|---|---|---|---|
| Total | | | | |
| Net revenues | $109,533 | | $113,438 | |
| Operating expenses (1) | 91,365 | | 98,216 | |
| Total segment pre-tax operating income | $18,168 | | $15,222 | |
| Pre-tax operating margin | 16.6 | % | 13.4 | % |

(1) Operating expenses include intangible asset amortization expense of $1.7 million for the three months ended March 31, 2013 and 2012, respectively.

33

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

Geographic Areas

The Company operates in both U.S. and non-U.S. markets. The Company's non-U.S. business activities are conducted through European and Asian locations. Net revenues disclosed in the following table reflect the regional view, with financing revenues allocated to geographic locations based upon the location of the capital market, advisory revenues allocated based upon the location of the investment banking team and net institutional sales and trading revenues allocated based upon the location of the client. Asset management revenues are allocated to the U.S. based upon the geographic location of the Company's asset management team. Net revenues exclude discontinued operations for all periods presented.

| | Three Months Ended March 31, | |
|---|---|---|
| (Dollars in thousands) | 2013 | 2012 |
| Net revenues: | | |
| United States | $105,726 | $111,234 |
| Europe | 3,807 | 2,204 |
| Consolidated | $109,533 | $113,438 |

Long-lived assets are allocated to geographic locations based upon the location of the asset. The following table presents long-lived assets held for use by geographic region:

| (Dollars in thousands) | March 31, 2013 | December 31, 2012 |
|---|---|---|
| Long-lived assets: | | |
| United States | $270,882 | $285,682 |
| Europe | 913 | 1,131 |
| Consolidated | $271,795 | $286,813 |

Note 21 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 March 31, 2013, net capital calculated under the SEC rule was $170.2 million, and exceeded the minimum net capital required under the SEC rule by $169.2 million.

The Company's short-term committed credit facility of $250 million and its variable rate senior notes include covenants requiring Piper Jaffray to maintain minimum net capital of $120 million.

Piper Jaffray Ltd., which is a registered United Kingdom broker dealer, was subject to the capital requirements of the U.K. Financial Services Authority ("FSA") until April 1, 2013, when the FSA was replaced by the Prudential Regulation Authority and the Financial Conduct Authority pursuant to the Financial Services Act of 2012. As of March 31, 2013, Piper Jaffray Ltd. was in compliance with the capital requirements of the FSA.

Piper Jaffray Asia operates entities licensed by the Hong Kong Securities and Futures Commission, which are subject to the liquid capital requirements of the Securities and Futures (Financial Resources) Rules promulgated under the Securities and Futures Ordinance. As of March 31, 2013, Piper Jaffray Asia regulated entities were in compliance with the liquid capital requirements of the Hong Kong Securities and Futures Ordinance.

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

Note 22 Income Taxes

For the three months ended March 31, 2013, the Company’s effective income tax rate from continuing operations, excluding noncontrolling interests, was 34.4 percent, compared to 54.8 percent for the three months ended March 31, 2012. The provision for income taxes for the three months ended March 31, 2012 was unusually high due to a $3.4 million write-off of a deferred tax asset related to equity grants that were forfeited or vested at a share price lower than the grant date share price.

Note 23 Subsequent Events

On April 16, 2013, the Company entered into a definitive agreement to purchase Seattle-Northwest Securities Corporation (“Seattle-Northwest”) in a transaction valued at approximately $21.0 million. Upon closing, the tangible book value of Seattle-Northwest is estimated to be $13.2 million. The transaction is expected to close in the third quarter of 2013, subject to approval by Seattle-Northwest's shareholders, regulatory approvals and other customary closing conditions.

On April 30, 2013, the Company announced it had completed the sale of FAMCO for consideration of $4.0 million.

## 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, 2012 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, 2012, 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.

### Executive Overview

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

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

On April 16, 2013 we entered into a definitive agreement to purchase Seattle-Northwest Securities Corporation (“Seattle-Northwest”) in a transaction valued at approximately $21.0 million. Upon closing, the tangible book value of Seattle-Northwest is estimated to be $13.2 million. The transaction is expected to close in the third quarter of 2013, subject to approval by Seattle-Northwest's shareholders, regulatory approvals and other customary closing conditions.

Asset Management – The Asset Management segment provides traditional asset management services with product offerings in equity and master limited partnership (“MLP”) securities 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 we manage.

Discontinued Operations – Our discontinued operations for all periods presented include the operating results of our Hong Kong capital markets business and Fiduciary Asset Management, LLC (“FAMCO”), a division of our asset management segment. As of September 30, 2012, we ceased operations related to our Hong Kong capital markets business. The results of the Hong Kong capital markets business were previously reported in our Capital Markets segment. On March 8, 2013, we signed a definitive agreement to sell FAMCO. The transaction, valued at $4.0 million, is subject to customary closing conditions and is expected to close during the second quarter of 2013. FAMCO is classified as held for sale and reported in discontinued operations for all periods presented. The results of FAMCO were previously reported in our Asset Management segment. See Note 4 to our unaudited consolidated financial statements for further discussion of our discontinued operations.

Our business is a human capital business. Accordingly, compensation and benefits comprise the largest component of our expenses, and our performance is dependent upon our ability to attract, develop and retain highly skilled employees who are motivated and committed to providing the highest quality of service and guidance to our clients.

Results for the three months ended March 31, 2013

For the three months ended March 31, 2013, net income applicable to Piper Jaffray Companies, including continuing and discontinued operations, was $10.1 million, or $0.57 per diluted common share. Net income applicable to Piper Jaffray Companies from continuing operations in the first quarter of 2013 was $10.7 million, or $0.60 per diluted common share, compared with net income applicable to Piper Jaffray Companies from continuing operations of $6.2 million, or $0.33 per diluted common share, for the prior-year period. Net revenues from continuing operations for the three months ended March 31, 2013 were $109.5 million, down 3.4 percent from the $113.4 million reported in the year-ago period due primarily to lower equity financing revenues. For the three months ended March 31, 2013, non-compensation expenses from continuing operations were $25.3 million, compared with $29.4 million for the three months ended March 31, 2012. Non-compensation expenses from continuing operations were reduced in the first quarter of 2013 by the receipt of insurance proceeds for reimbursement of prior legal settlements.

External Factors Impacting Our Business

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

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

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

Outlook for the remainder of 2013

We believe a gradual U.S. economic recovery will continue in 2013 with the potential to benefit several of our businesses. We are mindful, however, that certain factors could cause a more challenging economic environment to emerge in 2013. The impact of recent tax increases and spending cuts may have a negative impact on economic growth. In addition, the ongoing political debate related to the U.S. debt ceiling limit, the federal budget, and the level of federal deficit spending continues to pose downside risk to the economic recovery. As we have seen in recent years, global issues like the European debt crisis also can impact the U.S. economy and our businesses. Throughout the first quarter of 2013, equity market volatility remained near a five-year low and the equity market reached record levels. While volatility has increased somewhat into the second quarter of 2013, we believe that the environment for U.S. capital markets activity will be positive in 2013 if the key economic metrics remain strong. However, this can change rapidly as economic and market indicators fluctuate. In the fourth quarter of 2012, we recorded strong advisory services revenues attributed to sellers' desire to complete deals prior to year-end and pending tax increases. Advisory services activity declined in the first quarter of 2013 with fewer completed transactions, but we expect the level of activity to improve in the second half of 2013. We anticipate that interest rates will remain at low levels throughout 2013, however, increasing uncertainty over the timing of rising interest rates has resulted in headwinds in the fixed income markets, which may negatively impact our client flow business. We generated solid strategic trading results in the first quarter of 2013. These revenues will continue to vary from period to period based on market opportunities and other economic factors. Our asset management performance in 2013 will continue to be dependent upon equity valuations and our investment performance, which can impact the amount of client inflows and outflows of assets under management. Lastly, over the past few years, there has been a market trend of assets flowing out of equities into fixed income or alternative asset classes. In the first quarter of 2013, equity markets registered net inflows. If this trend continues, it will result in a more favorable environment for our cash equities and asset management businesses.

Table of Contents

Results of Operations

Financial Summary for the three months ended March 31, 2013 and March 31, 2012

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

| (Dollars in thousands) | Three Months Ended March 31, 2013 | 2012 | 2013 v2012 | As a Percentage of Net Revenues for the Three Months Ended March 31, 2013 | 2012 |
|---|---|---|---|---|---|
| Revenues: | | | | | |
| Investment banking | $40,362 | $48,085 | (16.1)% | 36.8% | 42.4% |
| Institutional brokerage | 43,260 | 44,080 | (1.9) | 39.5 | 38.9 |
| Asset management | 18,211 | 16,533 | 10.1 | 16.6 | 14.6 |
| Interest | 13,363 | 11,146 | 19.9 | 12.2 | 9.8 |
| Other income | 2,953 | 28 | N/M | 2.7 | — |
| Total revenues | 118,149 | 119,872 | (1.4) | 107.9 | 105.7 |
| Interest expense | 8,616 | 6,434 | 33.9 | 7.9 | 5.7 |
| Net revenues | 109,533 | 113,438 | (3.4) | 100.0 | 100.0 |
| Non-interest expenses: | | | | | |
| Compensation and benefits | 66,105 | 68,796 | (3.9) | 60.4 | 60.6 |
| Occupancy and equipment | 5,817 | 6,862 | (15.2) | 5.3 | 6.0 |
| Communications | 5,232 | 5,897 | (11.3) | 4.8 | 5.2 |
| Floor brokerage and clearance | 2,150 | 2,107 | 2.0 | 2.0 | 1.9 |
| Marketing and business development | 4,980 | 4,878 | 2.1 | 4.5 | 4.3 |
| Outside services | 7,214 | 5,838 | 23.6 | 6.6 | 5.1 |
| Intangible asset amortization expense | 1,661 | 1,736 | (4.3) | 1.5 | 1.5 |
| Other operating expenses | (1,794) | 2,102 | N/M | (1.6) | 1.9 |
| Total non-interest expenses | 91,365 | 98,216 | (7.0) | 83.4 | 86.6 |
| Income from continuing operations before income tax expense | 18,168 | 15,222 | 19.4 | 16.6 | 13.4 |
| Income tax expense | 5,600 | 7,553 | (25.9) | 5.1 | 6.7 |
| Income from continuing operations | 12,568 | 7,669 | 63.9 | 11.5 | 6.8 |
| Discontinued operations: | | | | | |
| Loss from discontinued operations, net of tax | (521) | (3,303) | (84.2) | (0.5) | (2.9) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Net income | 12,047 | 4,366 | 175.9 | | 11.0 | | 3.8 | |
| Net income applicable to noncontrolling interests | 1,901 | 1,437 | 32.3 | | 1.7 | | 1.3 | |
| Net income applicable to Piper Jaffray Companies | $10,146 | $2,929 | 246.4 | % | 9.3 | % | 2.6 | % |

N/M – Not meaningful

For the three months ended March 31, 2013, we recorded net income applicable to Piper Jaffray Companies, including continuing and discontinued operations, of $10.1 million. Net revenues from continuing operations for the three months ended March 31, 2013 were $109.5 million, a 3.4 percent decrease from the year-ago period. In the first quarter of 2013, investment banking revenues were $40.4 million, compared with $48.1 million in prior-year period due to a decline in equity financing revenues. For the three months ended March 31, 2013, institutional brokerage revenues were $43.3 million, essentially flat to the corresponding period of the prior year. In the first quarter of 2013, asset management fees increased 10.1 percent to $18.2 million, compared with $16.5 million in the first quarter of 2012, driven by higher management fees from increased assets under management. Net interest income in the first three months of 2013 was $4.7 million, flat compared to the prior-year period. For the three months ended March 31, 2013, other income was $3.0 million, compared with a minimal gain in the prior-year period as we recorded higher investment gains associated with our merchant banking activities and firm investments. Non-interest expenses from continuing operations decreased 7.0 percent to $91.4 million for the three months ended March 31, 2013, from $98.2 million in the corresponding period in the prior year. This decrease was primarily attributable to the receipt of insurance proceeds for the reimbursement of prior legal settlements and lower compensation and benefits expenses.

38

Table of Contents

Consolidated Non-Interest Expenses from Continuing Operations

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

For the three months ended March 31, 2013, compensation and benefits expenses decreased 3.9 percent to $66.1 million from $68.8 million in the corresponding period in 2012, due to lower financial results. Compensation and benefits expenses as a percentage of net revenues was 60.4 percent in the first three months of 2013, consistent with 60.6 percent in the first three months of 2012.

Occupancy and Equipment – For the three months ended March 31, 2013, occupancy and equipment expenses decreased 15.2 percent to $5.8 million, compared with $6.9 million in the corresponding period in 2012. The decrease was primarily the result of lower occupancy costs associated with our headquarters office space and lower software maintenance costs.

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 March 31, 2013, communication expenses decreased 11.3 percent to $5.2 million, compared with $5.9 million in the three months ended March 31, 2012. The decrease was primarily attributable to lower market data service expenses.

Floor Brokerage and Clearance – For the three months ended March 31, 2013, floor brokerage and clearance expenses were $2.2 million, essentially flat compared with the three months ended March 31, 2012.

Marketing and Business Development – Marketing and business development expenses include travel and entertainment and promotional and advertising costs. In the first quarter of 2013, marketing and business development expenses were $5.0 million, essentially flat compared with the three months ended March 31, 2012.

Outside Services – Outside services expenses include securities processing expenses, outsourced technology functions, outside legal fees, fund expenses associated with our consolidated alternative asset management funds and other professional fees. Outside services expenses increased 23.6 percent to $7.2 million in the first quarter of 2013, compared with $5.8 million in the corresponding period in 2012. Excluding the portion of expenses from non-controlled equity interests in our consolidated alternative asset management funds, outside services expenses increased 13.2 percent due primarily to increased professional fees.

Intangible Asset Amortization Expense – Intangible asset amortization expense includes the amortization of definite-lived intangible assets consisting of asset management contractual relationships. For the three months ended March 31, 2013, intangible asset amortization expense was $1.7 million, essentially flat compared with the corresponding period in 2012.

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 represented income of $1.8 million in the first quarter of 2013, compared with expenses of $2.1 million in the first quarter of 2012. The reduction in other operating expenses was due to receipt of insurance proceeds for the reimbursement of prior legal settlements.

Income Taxes – For the three months ended March 31, 2013, our provision for income taxes was $5.6 million equating to an effective tax rate, excluding noncontrolling interests, of 34.4 percent, compared with $7.6 million in the prior-year period equating to an effective tax rate, excluding noncontrolling interests, of 54.8 percent. Income tax expense recorded in the first quarter of 2012 was high compared to pre-tax income because of a $3.4 million write-off of deferred tax assets related to equity grants that were forfeited or vested at share prices lower than the grant date share price.

Table of Contents

Segment Performance from Continuing Operations

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

The following table provides our segment performance for the periods presented:

| | Three Months Ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| (Dollars in thousands) | 2013 | | 2012 | | 2013 v2012 | |
| Net revenues | | | | | | |
| Capital Markets | $91,209 | | $96,795 | | (5.8 | )% |
| Asset Management | 18,324 | | 16,643 | | 10.1 | |
| Total net revenues | $109,533 | | $113,438 | | (3.4 | )% |
| Pre-tax operating income | | | | | | |
| Capital Markets | $12,751 | | $10,740 | | 18.7 | % |
| Asset Management | 5,417 | | 4,482 | | 20.9 | |
| Total pre-tax operating income | $18,168 | | $15,222 | | 19.4 | % |
| Pre-tax operating margin | | | | | | |
| Capital Markets | 14.0 | % | 11.1 | % | | |
| Asset Management | 29.6 | % | 26.9 | % | | |
| Total pre-tax operating margin | 16.6 | % | 13.4 | % | | |

Capital Markets

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| (Dollars in thousands) | 2013 | 2012 | 2013 v2012 | |
| Net revenues: | | | | |
| Investment banking | | | | |
| Financing | | | | |
| Equities | $14,303 | $23,228 | (38.4 | )% |
| Debt | 17,032 | 14,769 | 15.3 | |
| Advisory services | 9,556 | 10,722 | (10.9 | ) |
| Total investment banking | 40,891 | 48,719 | (16.1 | ) |
| Institutional sales and trading | | | | |
| Equities | 20,735 | 20,980 | (1.2 | ) |
| Fixed income | 28,043 | 28,463 | (1.5 | ) |
| Total institutional sales and trading | 48,778 | 49,443 | (1.3 | ) |

| | | | |
|---|---|---|---|
| Other income/(loss) | 1,540 | (1,367) | N/M |
| Total net revenues | $91,209 | $96,795 | (5.8)% |
| Pre-tax operating income | $12,751 | $10,740 | 18.7% |
| Pre-tax operating margin | 14.0% | 11.1% | |

N/M – Not meaningful

40

Table of Contents

Investment banking revenues comprise all the revenues generated through financing and advisory services activities, including derivative activities related to our public finance business. 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 first quarter of 2013, investment banking revenues decreased 16.1 percent to $40.9 million compared with $48.7 million in the corresponding period of the prior year, due primarily to lower equity financing revenues. For the three months ended March 31, 2013, equity financing revenues were $14.3 million, compared with $23.2 million in the prior-year period, due to fewer completed transactions and lower revenue per transaction. During the first quarter of 2013, we completed 17 equity financings, raising $6.2 billion for our clients, compared with 22 equity financings, raising $3.4 billion in the first quarter of 2012. Equity financing revenues per transaction were lower as revenue from book run deals represented 52 percent of our fees in the first quarter of 2013, versus 66 percent in the first quarter of 2012. Debt financing revenues in the three months ended March 31, 2013 increased 15.3 percent to $17.0 million, compared with $14.8 million in the three months ended March 31, 2012, due to an increase in public finance revenues. Throughout 2012, we made investments in our public finance business to expand geographically. In the first quarter of 2013, we realized market share gains attributed to this geographic expansion. During the first quarter of 2013, we completed 152 public finance issues with a total par value of $2.5 billion, compared with 139 public finance issues with a total par value of $2.3 billion during the prior-year period. For the three months ended March 31, 2013, advisory services revenues decreased 10.9 percent to $9.6 million due to lower U.S. advisory services revenue, partially offset by increased European advisory services revenue. In the U.S., we experienced very strong advisory services revenue in the fourth quarter of 2012 as sellers were motivated to complete transactions prior to year-end and pending tax increases. This resulted in fewer transactions in the first quarter of 2013.

Institutional sales and trading revenues comprise all of the revenues generated through trading activities, which consist of facilitating customer trades and our strategic trading activities in municipal and structured mortgage securities. Also, it includes gains and losses on our investments in the municipal bond funds that we manage. 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 March 31, 2013, institutional brokerage revenues decreased slightly to $48.8 million, compared with $49.4 million in the prior-year period. Equity institutional brokerage revenues were $20.7 million in the first quarter of 2013, essentially flat compared with the corresponding period in 2012. For the three months ended March 31, 2013, fixed income institutional brokerage revenues were $28.0 million, compared with $28.5 million in the prior-year period. The investments made throughout 2012 in our middle market resources and solid strategic trading results offset the weakness in our client flow business during the quarter.

Other income/loss includes gains and losses from our merchant banking investments and other firm investments, performance and management fees on municipal bond and merchant banking funds, interest expense related to long-term funding and a commitment fee on a bank line of credit. For the three months ended March 31, 2013, other income/loss was income of $1.5 million due to gains on our merchant banking and firm investments, compared to a loss of $1.4 million in the corresponding period in 2012.

Capital Markets segment pre-tax operating margin for the three months ended March 31, 2013 increased to 14.0 percent, compared with 11.1 percent for the corresponding period in 2012, due to lower non-compensation expenses.

Table of Contents

Asset Management

| | Three Months Ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| (Dollars in thousands) | 2013 | | 2012 | | 2013 v2012 | |
| Net revenues: | | | | | | |
| Management fees | | | | | | |
| Value equity | $12,428 | | $12,476 | | (0.4 | )% |
| MLP | 4,670 | | 3,373 | | 38.5 | |
| Total management fees | 17,098 | | 15,849 | | 7.9 | |
| Performance fees | | | | | | |
| Value equity | 152 | | 424 | | (64.2 | ) |
| MLP | 199 | | — | | N/M | |
| Total performance fees | 351 | | 424 | | (17.2 | ) |
| Total management and performance fees | 17,449 | | 16,273 | | 7.2 | |
| Other income | 875 | | 370 | | 136.5 | |
| Total net revenues | $18,324 | | $16,643 | | 10.1 | % |
| Pre-tax operating income | $5,417 | | $4,482 | | 20.9 | % |
| Pre-tax operating margin | 29.6 | % | 26.9 | % | | |

N/M – Not meaningful

Management and performance fee revenues comprise the revenues generated through management and investment advisory services performed for separately managed accounts, registered funds and partnerships. Fluctuations in financial markets 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 assets under management, 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 assets under management 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 assets under management. Performance fees, if earned, are recorded in the applicable quarterly or annual measurement period or upon withdrawal of client assets. At March 31, 2013, approximately 2 percent of our AUM was eligible to earn performance fees.

For the three months ended March 31, 2013, management fees were $17.1 million, an increase of 7.9 percent, compared with $15.8 million in the prior-year period, due to increased management fees from our MLP product offerings. In the first quarter of 2013, management fees related to our value equity strategies were $12.4 million, essentially flat with the corresponding period in 2012. Our average effective revenue yield for our value equity strategies was 80 basis points for both the first quarter of 2013 and 2012, respectively. Management fees associated with our MLP strategy increased 38.5 percent in the first quarter of 2013 to $4.7 million, compared with $3.4 million in the first quarter of 2012, due to increased average AUM. Our average effective revenue yield for our MLP strategies was 48 basis points for the three months ended March 31, 2013, compared with 47 basis points in the prior-year period.

For the three months ended March 31, 2013, performance fees were $0.4 million, essentially flat compared with the prior year period.

Other 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 March 31, 2013, other income/loss was income of $0.9 million compared with $0.4 million for the prior-year period.

Segment pre-tax operating margin for the three months ended March 31, 2013 was 29.6 percent, compared to 26.9 percent for the three months ended March 31, 2012. The increase was due to higher management fees driven by increased AUM.

Table of Contents

The following table summarizes the changes in our assets under management for the three months ended March 31, 2013:

| (Dollars in millions) | Value Equity | MLP | Total |
|---|---|---|---|
| Assets under management: | | | |
| Balance at December 31, 2012 | $5,865 | $3,186 | $9,051 |
| Net inflows/(outflows) | (225) | 172 | (53) |
| Net market appreciation | 582 | 571 | 1,153 |
| Balance at March 31, 2013 | $6,222 | $3,929 | $10,151 |

Total assets under management increased $1.1 billion to $10.2 billion in the first three months of 2013 due to market appreciation in both our value equity and MLP product offerings. Value equity AUM was $6.2 billion at March 31, 2013, compared to $5.9 billion at December 31, 2012 as net market appreciation of $0.6 billion was offset by client outflows of $0.2 billion during the quarter. MLP AUM increased $0.7 billion to $3.9 billion in the first quarter of 2013 as we experienced market appreciation of $0.6 billion and net inflows of $0.2 billion.

Discontinued Operations

Discontinued operations include the operating results of our Hong Kong capital markets business, which ceased operations as of September 30, 2012, and our FAMCO subsidiary, which has been held for sale since December 31, 2012. We signed a definitive agreement on March 8, 2013 to sell FAMCO and the transaction closed on April 30, 2013 for consideration of $4.0 million. The results of these businesses are presented as discontinued operations for all periods presented. For the three months ended March 31, 2013, we recorded a loss from discontinued operations, net of tax, of $0.5 million, compared with a loss of $3.3 million for the three months ended March 31, 2012.

The components of discontinued operations for the Hong Kong capital markets business are as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| (Dollars in thousands) | 2013 | 2012 |
| Net revenues | $— | $2,055 |
| Total non-interest expenses | 397 | 4,940 |
| Loss from discontinued operations before income tax expense/(benefit) | (397) | (2,885) |
| Income tax expense/(benefit) | (73) | 36 |
| Loss from discontinued operations, net of tax | $(324) | $(2,921) |

The $0.4 million of non-interest expenses recorded in the first quarter of 2013 consisted of residual costs incurred in closing the Hong Kong capital markets business.

The components of discontinued operations for FAMCO are as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| (Dollars in thousands) | 2013 | 2012 |
| Net revenues | $1,276 | $1,372 |

| | | |
|---|---|---|
| Total non-interest expenses | 1,583 | 1,338 |
| Income/(loss) from discontinued operations before income tax expense/(benefit) | (307) | 34 |
| Income tax expense/(benefit) | (110) | 416 |
| Loss from discontinued operations, net of tax | $(197) | $(382) |

See Note 4 to our unaudited consolidated financial statements for further discussion of our discontinued operations.

43

Table of Contents

Recent Accounting Pronouncements

Recent accounting pronouncements are set forth in Note 3 to our unaudited consolidated financial statements, and are incorporated herein by reference.

Critical Accounting Policies

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

For a full description of our significant accounting policies, see Note 2 to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2012. We believe that of our significant accounting policies, the following are our critical accounting policies.

Valuation of Financial Instruments

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

The fair value of a financial instrument is the amount at which the instrument could be exchanged in an orderly transaction between market participants. Based on the nature of our business and our role as a “dealer” in the securities industry or our role as a manager of alternative asset management funds, the fair values of our financial instruments are determined internally. Our 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, we may use information provided by third-party pricing vendors to corroborate internally-developed fair value estimates.

A substantial percentage of the fair value of our 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 may involve some degree of judgment.

Results from valuation models and other valuation techniques in one period may not be indicative of the future period fair value measurement.

For investments in illiquid or privately held securities that do not have readily determinable fair values, the determination of fair value requires us to estimate the value of the securities using the best information available. Among the factors considered by us 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 we derive 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 example, we assume that the size of positions that we hold would not be large enough to affect the quoted price of the securities if we sell them, and that any

Table of Contents

such sale would happen in an orderly manner. The actual value realized upon disposition could be different from the current estimated fair value.

Depending upon the product and terms of the transaction, the fair value of our derivative contracts can be observed or priced using models based on the net present value of estimated future cash flows. Our models generally incorporate inputs that we believe are representative of inputs other market participants would use to determine fair value of the same instruments, including contractual terms, yield curves, discount rates and measures of volatility. The valuation models and underlying assumptions are monitored over the life of the derivative product. If there are any changes necessary in the underlying inputs, the model is updated for those new inputs.

Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic 820, "Fair Value Measurement," establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The objective of a fair value measurement is to determine the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level I measurements) and the lowest priority to inputs with little or no pricing observability (Level III measurements). Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The following table reflects the composition of our Level III assets and Level III liabilities by asset class:

| | Level III | |
|---|---|---|
| (Dollars in thousands) | March 31, 2013 | December 31, 2012 |
| Assets: | | |
| Financial instruments and other inventory positions owned: | | |
| Municipal securities: | | |
| Tax-exempt securities | $1,431 | $1,429 |
| Short-term securities | 656 | 656 |
| Asset-backed securities | 107,654 | 116,171 |
| Derivative contracts | 2,372 | 827 |
| Total financial instruments and other inventory positions owned: | 112,113 | 119,083 |
| Investments | 41,653 | 33,245 |
| Total assets | $153,766 | $152,328 |
| Liabilities: | | |
| Financial instruments and other inventory positions sold, but not yet purchased: | | |
| Derivative contracts | $399 | $5,218 |
| Total financial instruments and other inventory positions sold, but not yet purchased: | $399 | $5,218 |

The following table reflects activity with respect to our Level III assets and liabilities:

| | Three Months Ended March 31, | |
|---|---|---|
| (Dollars in thousands) | 2013 | 2012 |
| Assets: | | |
| Purchases | $191,022 | $141,915 |
| Sales | (203,619) | (122,422) |
| Transfers in | — | 2,476 |

| | | |
|---|---|---|
| Realized gains/(losses) | 15,003 | (685) |
| Unrealized gains/(losses) | (968) | 2,482 |
| | | |
| Liabilities: | | |
| Purchases | $(5,650) | $(3,808) |
| Transfers out | — | (1,171) |
| Realized losses | 5,637 | 2,862 |
| Unrealized gains | (4,806) | (53) |

See Note 6 to our consolidated financial statements for additional discussion of Level III assets and liabilities.

45

Table of Contents

We employ specific control processes to determine the reasonableness of the fair value of our financial instruments. Our 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. We have established parameters which set forth when 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 our financial statements, changes in fair value from period to period, and other specific facts and circumstances of our security portfolio. In evaluating the initial internally-estimated fair values made by our 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. We have a valuation committee, comprised of members of senior management, that provides oversight and overall responsibility for the internal control processes and procedures related to fair value measurements.

Goodwill and Intangible Assets

We record all assets and liabilities acquired in purchase acquisitions, including goodwill and other intangible assets, at fair value. Determining the fair value of assets and liabilities acquired requires certain management estimates. At March 31, 2013, we had goodwill of $196.8 million, all of which relates to our asset management segment.

Under FASB Accounting Standards Codification Topic 350, "Intangibles – Goodwill and Other," ("ASC 350") we are required to perform impairment tests of our goodwill and indefinite-life intangible assets annually and on an interim basis when certain events or circumstances exist that could indicate possible impairment. We have elected to test for goodwill impairment in the fourth quarter of each calendar year. We have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, we determine it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if we conclude otherwise, then we are required to perform the two-step impairment test, which requires management to make judgments in determining what assumptions to use in the calculation. The first step of the process consists of estimating the fair value of our reporting units based on the following factors: our market capitalization, a discounted cash flow model using revenue and profit forecasts, public market comparables and multiples of recent mergers and acquisitions of similar businesses. Valuation multiples may be based on revenues, earnings before interest, taxes, depreciation and amortization (EBITDA), price-to-earnings or cash flows of comparable public companies and business segments. These multiples may be adjusted to consider competitive differences including size, operating leverage and other factors. The estimated fair values of our reporting units are compared with their carrying values, which includes the allocated goodwill. If the estimated fair values are less than the carrying values, a second step is performed to compute the amount of the impairment by determining an “implied fair value” of goodwill. The determination of a reporting unit’s “implied fair value” of goodwill requires us to allocate the estimated fair value of the reporting unit to the assets and liabilities of the reporting unit. Any unallocated fair value represents the “implied fair value” of goodwill, which is compared to its corresponding carrying value.

Beginning in 2013, we have the option to first assess qualitative factors in determining whether the fair value of an indefinite-lived intangible asset is less than its carrying amount. Further quantitative analysis is required if we determine, based on an evaluation of all relevant qualitative factors, that the fair value of an indefinite-lived intangible asset is less than its carrying amount.

As noted above, the initial recognition of goodwill and other intangible assets and the subsequent impairment analysis requires management to make subjective judgments concerning estimates of how the acquired assets or businesses will perform in the future using valuation methods including discounted cash flow analysis. Our estimated cash flows typically extend for five years and, by their nature, are difficult to determine over an extended time period. Events and factors that may significantly affect the estimates include, among others, competitive forces and changes in revenue growth trends, cost structures, technology, discount rates and market conditions. To assess the reasonableness of cash flow estimates and validate assumptions used in our estimates, we review historical performance of the underlying assets or similar assets. In assessing the fair value of our reporting units, the volatile nature of the securities markets and our industry requires us to consider the business and market cycle and assess the stage of the cycle in estimating the timing and extent of future cash flows.

In the first quarter of 2012, we reorganized our FAMCO and Advisory Research, Inc. (“ARI”) reporting units, resulting in FAMCO's MLP business becoming part of ARI. In accordance with ASC 350, $44.6 million of the $50.1 million in goodwill attributable to our 2007 acquisition of FAMCO was reallocated to the ARI reporting unit.

Table of Contents

We completed our 2012 annual goodwill impairment testing as of November 30, 2012, and concluded there was no goodwill impairment from continuing operations, which consists of our ARI reporting unit. We recorded a non-cash goodwill impairment charge of $5.5 million related to our FAMCO reporting unit reported within discontinued operations. The amount represented the full value of goodwill attributable to the FAMCO reporting unit. We estimated the fair value of our FAMCO reporting unit using a discounted cash flow model and the anticipated sales price for FAMCO, which is classified as held for sale. We also tested the intangible assets (indefinite and definite-lived) and concluded there was no impairment.

Compensation Plans

Stock-Based Compensation Plans

As part of our compensation to employees and directors, we use stock-based compensation, consisting of restricted stock, restricted stock units and stock options. The Company accounts for equity awards in accordance with FASB Accounting Standards Codification Topic 718, "Compensation – Stock Compensation," ("ASC 718"), which requires all share-based payments to employees, including grants of employee stock options, to be recognized on the consolidated statements of operations at grant date fair value over the service period of the award, net of estimated forfeitures. We grant shares of restricted stock to current employees as part of year-end compensation ("Annual Grants") as a retention tool. Employees may receive restricted stock with service conditions upon initial hiring or as a retention award ("Sign-on Grants"). We have also granted incremental restricted stock awards with service conditions to key employees ("Retention Grants"), as well as restricted stock awards with performance conditions to members of senior management ("Performance Grants"). In 2012, we granted restricted stock units with market conditions to our leadership team ("Leadership Grants"). Upon closing of the ARI acquisition in March 2010, we granted restricted stock with service conditions to ARI employees ("Inducement Grants").

Annual Grants are made each February for the prior fiscal year performance and constitute a portion of an employee's annual incentive for the prior year. We recognize the compensation expense prior to the grant date of the award as we determined that the service inception date precedes the grant date. These grants are not subject to service requirements that employees must fulfill in exchange for the right to these awards, as the grants continue to vest after termination of employment, so long as the employee does not violate certain post-termination restrictions as set forth in the award agreements or any agreements entered into upon termination. Prior to 2011, Annual Grants were subject to three-year cliff vesting. Beginning in 2011, Annual Grants are subject to annual ratable vesting over a three-year period. Unvested shares are subject to post-termination restrictions. These post-termination restrictions do not meet the criteria for an in-substance service condition as defined by ASC 718. Accordingly, such shares of restricted stock comprising Annual Grants are expensed in the period to which those awards are deemed to be earned, which is the calendar year preceding the February grant date. If any of these awards are forfeited, the lower of the fair value at grant date or the fair value at the date of forfeiture is recorded within the consolidated statements of operations as a reduction of compensation and benefits expense.

Sign-on Grants are used as a recruiting tool for new employees and are issued to current employees as a retention tool. The majority of these awards have three-year cliff vesting terms and 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. Employees forfeit unvested shares upon termination of employment and a reversal of compensation expense is recorded.

Retention Grants and Inducement Grants are subject to ratable vesting based upon a five-year service requirement and are amortized as compensation expense on a straight-line basis from the grant date over the requisite service period. Employees forfeit unvested retention shares upon termination of employment and a reversal of compensation expense is recorded.

Performance-based restricted stock awards granted in 2008 and 2009 cliff vest upon meeting a specific performance-based metric prior to May 2013. Performance Grants are amortized on a straight-line basis over the period we expect the performance target to be met. The performance condition must be met for the awards to vest and total compensation cost will be recognized only if the performance condition is satisfied. The probability that the performance conditions will be achieved and that the awards will vest is reevaluated each reporting period with changes in actual or estimated outcomes accounted for using a cumulative effect adjustment to compensation expense.

The Leadership Grants will vest and convert to shares of common stock at the end of the 36-month performance period only if the Company satisfies predetermined market conditions over the performance period that began on May 15, 2012 and ends on May 14, 2015. Under the terms of the grant, the number of units that will vest and convert to shares will be based on the achievement of certain levels of absolute and relative shareholder return during the performance period. 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 conditions must be met for the awards to vest and compensation cost will be recognized regardless if the market conditions are satisfied. Employees forfeit unvested share units upon termination of employment with a corresponding reversal of compensation expense.

Stock-based compensation granted to our non-employee directors is in the form of unrestricted common shares of Piper Jaffray Companies stock. The stock-based compensation paid to non-employee directors is expensed on the grant date and included in our results of operations as outside services expense.

We granted stock options in fiscal years 2004 through 2008. The options were expensed on a straight-line basis over the required service period, based on the estimated fair value of the award on the grant date using a Black-Scholes option-pricing model. This model required management to exercise judgment with respect to certain assumptions, including the expected dividend yield, the expected volatility, and the expected life of the options. As described above pertaining to our Annual Grants of restricted shares, stock options granted to employees were expensed in the calendar year preceding the annual February grant. Stock options have a ten year life and will begin expiring in 2014.

Deferred Compensation Plan

We established a deferred compensation plan in 2012, which allows eligible employees to elect to receive a portion of the incentive compensation they would otherwise receive in the form of restricted stock or other equity, instead in restricted mutual fund shares (“MFRS Awards”) of registered funds managed by our 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 our 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 expenses within the consolidated statements of operations.

Contingencies

We are involved in various pending and potential legal proceedings related to our business, including litigation, arbitration and regulatory proceedings. Some of these matters involve claims for substantial amounts, including claims for punitive and other special damages. We have, after consultation with outside legal counsel and consideration of facts currently known by management, established reserves for potential losses in accordance with FASB Accounting Standards Codification Topic 450, “Contingencies,” to the extent that claims are probable of loss and the amount of the loss can be reasonably estimated. The determination of these reserve amounts requires significant judgment on the part of management. In making these determinations, we consider many factors, including, but not limited to, the loss and damages sought by the plaintiff or claimant, the basis and validity of the claim, the likelihood of a successful defense against the claim, and the potential for, and magnitude of, damages or settlements from such pending and potential litigation and arbitration proceedings, and fines and penalties or orders from regulatory agencies. Given the uncertainties regarding timing, size, volume and outcome of pending and potential legal proceedings and other factors, the amounts of reserves are difficult to determine and of necessity subject to future revision.

Income Taxes

We file a consolidated U.S. federal income tax return, which includes all of our qualifying subsidiaries. We also are subject to income tax in various states and municipalities and those foreign jurisdictions in which we operate. Amounts provided for income taxes are based on income reported for financial statement purposes and do not necessarily represent amounts currently payable. Deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and for tax loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income taxes are provided for temporary differences in reporting certain items, principally, amortization of share-based compensation. The realization of deferred tax assets is assessed and a valuation allowance is recognized to the extent that it is more likely than not that any portion of the deferred tax asset will not be realized. We believe that our future taxable profits will be sufficient to recognize our U.S. deferred tax assets. However, if our projections of future taxable profits do not materialize, we may conclude that a valuation allowance is necessary, which would impact our results of operations in that period. As of March 31, 2013, we have a deferred tax asset valuation allowance of $4.7 million related to our U.K. subsidiary’s net operating loss carryforwards, which represents all but $1.1 million of the U.K. subsidiary’s deferred tax asset. We anticipate being able to reverse the full amount of our U.K. subsidiary's valuation allowance in the fourth quarter of 2013, based upon achieving three years of profitability and projected future earnings. This will result in a tax benefit to our results of operations.

Table of Contents

We record deferred tax benefits for future tax deductions expected upon the vesting of share-based compensation. If deductions reported on our tax return for share-based compensation (i.e., the value of the share-based compensation at the time of vesting) exceed the cumulative cost of those instruments recognized for financial reporting (i.e., the grant date fair value of the compensation computed in accordance with ASC 718), we record the excess tax benefit as additional paid-in capital. Conversely, if deductions reported on our tax return for share-based compensation are less than the cumulative cost of those instruments recognized for financial reporting, we offset the deficiency first to any previously recognized excess tax benefits recorded as additional paid-in capital and any remaining deficiency is recorded as income tax expense. Approximately 895,000 shares vested in the first quarter of 2013 at values greater than the grant date fair value, resulting in $0.1 million of excess tax benefits recorded as additional paid-in capital in the first quarter of 2013.

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

Liquidity, Funding and Capital Resources

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

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

The following are financial instruments that are cash and cash equivalents, or are deemed by management to be generally readily convertible into cash or accessible for liquidity purposes within a short period of time:

| | | | Average Balance for the Three Months Ended | | |
|---|---|---|---|---|---|
| (Dollars in thousands) | March 31, 2013 | December 31, 2012 | March 31, 2013 | December 31, 2012 | March 31, 2012 |
| Cash and cash equivalents: | | | | | |
| Cash in banks | $21,741 | $54,025 | $47,698 | $43,212 | $30,872 |
| Cash in banks reserved for Credit Agreement repayment | — | — | — | 12,488 | 14,246 |
| Money market investments | 774 | 51,346 | 91,459 | 68,723 | 39,092 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Total cash and cash equivalents | $22,515 | $105,371 | $139,157 | (1) | $124,423 | (1) | $84,210 | (1) |

(1) Average balance calculated based upon ending daily balances.

In addition, we had cash and cash equivalents segregated of $45.0 million and $31.0 million that was available exclusively for customer liabilities included on our balance sheet as of March 31, 2013 and December 31, 2012, respectively. Cash and cash equivalents segregated consist of deposits in accordance with Rule 15c3-3 of the Securities Exchange Act of 1934, which subjects Piper Jaffray & Co., our U.S. broker dealer subsidiary carrying client accounts, to requirements related to maintaining cash or qualified securities in a segregated reserve account for the exclusive benefit of our clients.

A portion of these financial instruments are held within our regulated entities and our ability to transfer these financial instruments out of our regulated entities is limited by net capital requirements that apply to those entities only. Our regulated entities could seek regulatory approval to dividend these financial instruments to the parent for liquidity purposes; however, this could curtail our revenue producing activities within our regulated entities if it reduced our net capital.

49

Table of Contents

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

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

We currently do not pay cash dividends on our common stock and do not plan to in the foreseeable future.

In the third quarter of 2012, our board of directors approved a new share repurchase authorization of up to $100 million in common shares through September 30, 2014. This authorization became effective October 1, 2012. During the first quarter of 2013, we did not repurchase any shares of our common stock related to this authorization. We also purchase shares of common stock from restricted stock award recipients upon the award vesting as recipients sell shares to meet their employment tax obligations. During the first quarter of 2013, we purchased 340,789 shares or $13.9 million of our common shares for this purpose.

Leverage

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

| (Dollars in thousands) | March 31, 2013 | December 31, 2012 |
|---|---|---|
| Total assets | $2,329,878 | $2,087,733 |
| Deduct: Goodwill and intangible assets | (238,819) | (240,480) |
| Adjusted assets | $2,091,059 | $1,847,253 |
| | | |
| Total shareholders' equity | $861,780 | $790,175 |
| Deduct: Goodwill and intangible assets | (238,819) | (240,480) |
| Tangible shareholders' equity | $622,961 | $549,695 |
| | | |
| Leverage ratio (1) | 2.7 | 2.6 |
| | | |
| Adjusted leverage ratio (2) | 3.4 | 3.4 |

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

Adjusted assets and tangible shareholders' equity are non-GAAP financial measures. A non-GAAP financial measure is a numeric measure of financial performance that includes adjustments to the most directly comparable measure calculated and presented in accordance with GAAP, or for which there is no specific GAAP measure. Goodwill and intangible assets are subtracted from total assets and total shareholders' equity in determining adjusted assets and tangible shareholders' equity, respectively, as we believe that goodwill and intangible assets do not constitute operating assets which can be deployed in a liquid manner. We view the resulting measure of adjusted leverage, also a non-GAAP financial measure, as a more relevant measure of financial risk when comparing financial services companies. Our leverage ratio increased from December 31, 2012 to March 31, 2013 as a result of higher inventory balances.

Our alternative asset management funds in municipal securities use leverage on a daily basis, generally through borrowings from their prime broker to purchase financial instruments and interest rate swaps. The level of borrowings fluctuates within a targeted average portfolio leverage level depending on market conditions and opportunities. The use of leverage increases the risk of losses due to factors such as rising interest rates. The rates at which the funds can borrow may have a substantial effect on performance. Volatility or illiquidity in the financial markets may also cause leverage to no longer be available. The impact of our alternative asset management funds are included in the above table.

Funding and Capital Resources

The primary goal of our funding activities is to ensure adequate funding over a wide range of market conditions. Given the mix of our business activities, funding requirements are fulfilled through a diversified range of short-term and long-term financing. We attempt to ensure that the tenor of our borrowing liabilities equals or exceeds the expected holding period of the assets being financed. Our ability to support increases in total assets is largely a function of our ability to obtain funding from external sources.

Table of Contents

Access to these external sources, as well as the cost of that financing, is dependent upon various factors, including market conditions, the general availability of credit and credit ratings. We currently do not have a credit rating, which could adversely affect our liquidity and competitive position by increasing our financing costs and limiting access to sources of liquidity that require a credit rating as a condition to providing the funds.

Short-term financing

Our day-to-day funding and liquidity is obtained primarily through the use of repurchase agreements, commercial paper issuance, prime broker agreements, and bank lines of credit, and is typically collateralized by our securities inventory. These funding sources are critical to our ability to finance and hold inventory, which is a necessary part of our institutional brokerage and municipal bond funds businesses. The majority of our inventory is very liquid and is therefore funded by overnight or short-term facilities. These short-term facilities (i.e., committed line, term repurchase agreement and commercial paper) have been established to mitigate changes in the liquidity of our inventory based on changing market conditions. Our funding sources are also dependent on the types of inventory that our counterparties are willing to accept as collateral and the number of counterparties available. From time to time the number of counterparties that will enter into municipal repurchase agreements can be limited based on market conditions. Currently, the majority of our bank lines, our commercial paper programs and our prime broker arrangement will accept municipal inventory as collateral, which helps mitigate this municipal repurchase agreement counterparty risk. We also have established arrangements to obtain financing by another broker dealer at the end of each business day related specifically to our convertible inventory. Funding is generally obtained at rates based upon the federal funds rate and/or the London Interbank Offer Rate.

Commercial Paper Program – Our U.S. broker dealer subsidiary, Piper Jaffray & Co, issues secured commercial paper to fund a portion of its securities inventory. This commercial paper is issued under two separate programs, CP Series A and CP Series II A, and is secured by different inventory classes, which is reflected in the interest rate paid on the respective program. The maximum amount that may be issued under CP Series A and CP Series II A is $300 million and $150 million, respectively. At March 31, 2013, CP Series A had $199.1 million outstanding and CP Series II A had $65.0 million outstanding. Both programs can issue with maturities of 28 to 270 days. The weighted average maturity of CP Series A and CP Series II A as of March 31, 2013 was 102 days and 99 days, respectively.

On April 1, 2013, we initiated a third commercial paper program to provide additional funding capacity and to fund asset-backed securities. The maximum amount that may be issued under this program is $100 million.

Prime Broker Arrangement – We have established an arrangement to obtain overnight financing by a single prime broker related to our alternative asset management funds in municipal securities. 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. More specifically, this funding is at the discretion of the prime broker and could be denied, which may be particularly true during times of market stress or market perceptions of our exposures. At March 31, 2013, we had $75.9 million of financing outstanding under this prime broker arrangement.

Committed Lines – Our committed line is a one-year $250 million revolving secured credit facility. We use this credit facility in the ordinary course of business to fund a portion of our daily operations, and the amount borrowed under the facility varies daily based on our funding needs. Advances under this facility are secured by certain marketable securities. The facility includes a covenant that requires Piper Jaffray & Co., our U.S. broker dealer subsidiary, to maintain a minimum net capital of $120 million, and the unpaid principal amount of all advances under the facility will be due on December 28, 2013. At March 31, 2013, we had no advances against this line of credit.

Uncommitted Lines – We use uncommitted lines in the ordinary course of business to fund a portion of our daily operations, and the amount borrowed under our uncommitted lines varies daily based on our funding needs. Our uncommitted secured lines total $175 million with two banks and are dependent on having appropriate collateral, as determined by the bank agreement, to secure an advance under the line. Collateral limitations could reduce the amount of funding available under these secured lines. We also have an uncommitted unsecured facility with one of these banks. All of these uncommitted lines are discretionary and are not a commitment by the bank to provide an advance under the line. More specifically, these lines are subject to approval by the respective bank each time an advance is requested and advances may be denied, which may be particularly true during times of market stress or market perceptions of our exposures. We manage our relationships with the banks that provide these uncommitted facilities in order to have appropriate levels of funding for our business. At March 31, 2013, we had $69.0 million outstanding advances against these lines of credit.

Table of Contents

The following table presents the average balances outstanding for our various short-term funding sources by quarter for 2013 and 2012, respectively.

| | Average Balance for the Three Months Ended | | | | |
|---|---|---|---|---|---|
| (Dollars in millions) | Mar. 31, 2013 | Dec. 31, 2012 | Sept. 30, 2012 | June 30, 2012 | Mar. 31, 2012 |
| Funding source: | | | | | |
| Repurchase agreements | $66.2 | $50.0 | $71.0 | $158.5 | $114.3 |
| Commercial paper | 308.9 | 307.2 | 278.5 | 238.8 | 201.2 |
| Prime broker arrangement | 105.2 | 180.0 | 154.7 | 32.1 | 5.8 |
| Short-term bank loans | 5.1 | 0.2 | 3.5 | 40.9 | 9.7 |
| Total | $485.4 | $537.4 | $507.7 | $470.3 | $331.0 |

The average funding in the first quarter of 2013 decreased to $485.4 million, compared with $537.4 million during the fourth quarter of 2012, primarily due to a decrease in funding at our prime broker. The decrease in funding at our prime broker was a result of changes in inventory and equity levels in our alternative asset management funds during the first quarter of 2013. The average funding balance increased from $331.0 million in the first quarter of 2012 to $485.4 million in the first quarter of 2013, as a result of higher average inventory balances.

The following table presents the maximum daily funding amount by quarter for 2013 and 2012, respectively.

| | For the Three Months Ended | | | | |
|---|---|---|---|---|---|
| (Dollars in millions) | Mar. 31, 2013 | Dec. 31, 2012 | Sept. 30, 2012 | June 30, 2012 | Mar. 31, 2012 |
| Maximum amount of daily funding | $677.1 | $619.4 | $613.8 | $666.1 | $486.0 |

Variable rate senior notes

On November 30, 2012, we entered into a note purchase agreement (“Note Purchase Agreement”) under which we 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. The unpaid principal amount of the Class A Notes and Class B Notes will be due on May 31, 2014 and November 30, 2015, respectively. The proceeds from the Notes were used to repay the outstanding balance under the three-year bank syndicated credit agreement (“Credit Agreement”), which eliminated our obligation to comply with the covenants under the Credit Agreement, including limitations on our share repurchasing activity. The remaining proceeds are used for general corporate purposes.

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

The Note Purchase Agreement includes covenants that, among other things, require us to maintain a minimum consolidated tangible net worth and minimum regulatory net capital, limit our leverage ratio and require maintenance of a minimum ratio of operating cash flow to fixed charges. With respect to the net capital covenant, our U.S. broker dealer subsidiary is required to maintain minimum net capital of $120 million. At March 31, 2013, we were in compliance with all covenants.

Three-year bank syndicated credit agreement

On December 29, 2010, we entered into a Credit Agreement comprised of a $100 million amortizing term loan and a $50 million revolving credit facility. The unpaid principal and interest on the Credit Agreement was paid off on November 30, 2012 from the proceeds of the Notes.

Contractual Obligations

Our contractual obligations have not materially changed from those reported in our Annual Report on Form 10-K for the year ended December 31, 2012.

Table of Contents

Capital Requirements

As a registered broker dealer and member firm of FINRA, our U.S. broker dealer subsidiary is subject to the uniform net capital rule of the SEC and the net capital rule of FINRA. We have elected to use the alternative method permitted by the uniform net capital rule, which requires that we maintain minimum net capital of the greater of $1.0 million or 2 percent of aggregate debit balances arising from customer transactions, as this is defined in the rule. 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 liabilities, dividend payments and other equity withdrawals are subject to certain notification and other provisions of the uniform net capital rules. We expect that these provisions will not impact our ability to meet current and future obligations. We also are subject to certain notification requirements related to withdrawals of excess net capital from our broker dealer subsidiary. At March 31, 2013, our net capital under the SEC's uniform net capital rule was $170.2 million, and exceeded the minimum net capital required under the SEC rule by $169.2 million.

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

At March 31, 2013 Piper Jaffray Ltd., our broker dealer subsidiary registered in the United Kingdom, was subject to the capital requirements of the U.K. Financial Services Authority ("FSA"). Effective April 1, 2013, the FSA was replaced by the Prudential Regulation Authority and the Financial Conduct Authority pursuant to the Financial Services Act of 2012.

Our Piper Jaffray entities operating in the Hong Kong region are registered under the laws of Hong Kong and subject to the liquid capital requirements of the Securities and Futures (Finance Resources) Rule promulgated under the Securities and Futures Ordinance.

Off-Balance Sheet Arrangements

In the ordinary course of business we enter into various types of off-balance sheet arrangements. The following table summarizes our off-balance sheet arrangements at March 31, 2013 and December 31, 2012:

| | Expiration Per Period at March 31, 2013 | | | | | | Total Contractual Amount | |
|---|---|---|---|---|---|---|---|---|
| (Dollars in thousands) | Remainder of 2013 | 2014 | 2015 | 2016 - 2017 | 2018 - 2019 | Later | March 31, 2013 | December 31, 2012 |
| Customer matched-book derivative contracts (1) (2) | $50,220 | $30,000 | $72,154 | $107,015 | $85,250 | $5,112,598 | $5,457,237 | $5,569,096 |
| Trading securities derivative contracts (2) | 211,000 | 8,000 | — | — | — | — | 219,000 | 244,250 |
| Credit default swap index contracts (2) | — | — | 96,000 | 229,650 | — | 18,902 | 344,552 | 230,650 |
| Private equity investment commitments (3) | — | — | — | — | — | — | 41,327 | 44,010 |

(1) Consists of interest rate swaps. We have minimal market risk related to these matched-book derivative contracts; however, we do have counterparty risk with two major financial institutions, which is mitigated by collateral

deposits. In addition, we have a limited number of counterparties (contractual amount of $202.8 million at March 31, 2013) who are not required to post collateral. The uncollateralized amounts, representing the fair value of the derivative contracts, expose us to the credit risk of these counterparties. At March 31, 2013, we had $29.1 million of credit exposure with these counterparties, including $16.0 million of credit exposure with one counterparty.

(2) We believe the fair value of these derivative contracts is a more relevant measure of the obligations because we believe the notional or contract amount overstates the expected payout. At March 31, 2013 and December 31, 2012, the net fair value of these derivative contracts approximated $32.0 million and $35.5 million, respectively.

(3) The investment commitments have no specified call dates; however, the investment period for these funds is through 2016. The timing of capital calls is based on market conditions and investment opportunities.

Derivatives

Derivatives' notional or contract amounts are not reflected as assets or liabilities on our consolidated statements of financial condition. Rather, the fair value of the derivative transactions are reported on the consolidated statements of financial condition as assets or liabilities in financial instruments and other inventory positions owned and financial instruments and other inventory positions sold, but not yet purchased, as applicable. Derivatives are reported on a net basis by counterparty when a legal right of offset exists and on a net basis by cross product when applicable provisions are stated in a master netting agreement.

We enter into derivative contracts in a principal capacity as a dealer to satisfy the financial needs of clients. We also use derivative products to hedge the interest rate and market value risks associated with our security positions. Our interest rate hedging strategies

53

Table of Contents

may not work in all market environments and as a result may not be effective in mitigating interest rate risk. For a complete discussion of our activities related to derivative products, see Note 5, "Financial Instruments and Other Inventory Positions Owned and Financial Instruments and Other Inventory Positions Sold, but Not Yet Purchased," in the notes to our consolidated financial statements.

Loan Commitments

We may commit to bridge loan financing for our clients or make commitments to underwrite corporate debt. We had no loan commitments outstanding at March 31, 2013.

Private Equity and Other Principal Investments

A component of our private equity and principal investments, including investments made as part of our merchant banking activities, are made through investments in various legal entities, typically partnerships or limited liability companies, established for the purpose of investing in securities of private companies or municipal debt obligations. We commit capital or act as the managing partner of these entities. Some of these entities are deemed to be variable interest entities. For a complete discussion of our activities related to these types of entities, see Note 7, "Variable Interest Entities," to our consolidated financial statements.

We have committed capital to certain entities and these commitments generally have no specified call dates. We had $41.3 million of commitments outstanding at March 31, 2013, of which $40.2 million related to a commitment to an affiliated merchant banking fund.

Enterprise Risk Management

Risk is an inherent part of our business. In the course of conducting business operations, we are exposed to a variety of risks. Market risk, liquidity risk, credit risk, operational risk, legal, regulatory and compliance risk, and reputational risk are the principal risks we face in operating our business. We seek to identify, assess and monitor each risk in accordance with defined policies and procedures. The extent to which we properly identify and effectively manage each of these risks is critical to our financial condition and profitability.

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

In addition to supporting daily risk management processes on the trading desks, our risk management functions support our financial risk committee and valuation committee. The financial risk committee oversees risk management practices, including defining acceptable risk tolerances and approving risk management policies.

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

Market Risk

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

Our different types of market risk include:

Interest Rate Risk — Interest rate risk represents the potential volatility from changes in market interest rates. We are exposed to interest rate risk arising from changes in the level and volatility of interest rates, changes in the shape of the yield curve, changes in credit spreads, and the rate of prepayments on our interest-earning assets (including client cash balances, investments, inventories, and resale agreements) and our funding sources (including client cash balances, short-term and bank syndicated financing, and

Table of Contents

repurchase agreements), which finance these assets. Interest rate risk is managed through the use of appropriate hedging in U.S. government securities, agency securities, mortgage-backed securities, corporate debt securities, interest rate swaps, options, futures and forward contracts. We use interest rate swap contracts and MMD rate lock agreements to hedge a portion of our fixed income inventory. These interest rate swap contracts are recorded at fair value with the changes in fair value recognized in earnings. Our interest rate hedging strategies may not work in all market environments and as a result may not be effective in mitigating interest rate risk.

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

Currency Risk — Currency risk arises from the possibility that fluctuations in foreign exchange rates will impact the value of financial instruments. A portion of our business is conducted in currencies other than the U.S. dollar, and changes in foreign exchange rates relative to the U.S. dollar can therefore affect the value of non-U.S. dollar net assets, revenues and expenses. A change in the foreign currency rates could create either a foreign currency transaction gain/loss (recorded in our consolidated statements of operations) or a foreign currency translation adjustment (recorded to accumulated other comprehensive income within the shareholders' equity section of our consolidated statements of financial condition and other comprehensive income within the consolidated statements of comprehensive income).

Value-at-Risk

Value-at-Risk ("VaR") is the potential loss in value of our trading positions, excluding non-controlling interests, due to adverse market movements over a defined time horizon with a specified confidence level. We perform a daily VaR analysis on substantially all of our trading positions, including fixed income, equities, convertible bonds, asset-backed securities, and all associated economic hedges. These positions encompass both customer-related and strategic trading activities. We use a VaR model because it provides a common metric for assessing market risk across business lines and products. Changes in VaR between reporting periods are generally due to changes in levels of risk exposure, volatilities and/or correlations among asset classes and individual securities.

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

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

The modeling of the market risk characteristics of our trading positions involves a number of assumptions and approximations. While we believe that these assumptions and approximations are reasonable, different assumptions and approximations could produce materially different VaR estimates.

The following table quantifies the model-based VaR simulated for each component of market risk for the periods presented, which are computed using the past 250 days of historical data. When calculating VaR we use a 95 percent confidence level and a one-day time horizon. This means that, over time, there is a 1 in 20 chance that daily trading net revenues will fall below the expected daily trading net revenues by an amount at least as large as the reported VaR. Shortfalls on a single day can exceed reported VaR by significant amounts. Shortfalls can also accumulate over a longer time horizon, such as a number of consecutive trading days. Therefore, there can be no assurance that actual losses occurring on any given day arising from changes in market conditions will not exceed the VaR amounts shown below or that such losses will not occur more than once in a 20-day trading period.

| (Dollars in thousands) | March 31, 2013 | December 31, 2012 |
|---|---|---|
| Interest Rate Risk | $1,326 | $779 |
| Equity Price Risk | 913 | 911 |
| Diversification Effect (1) | (956) | (737) |
| Total Value-at-Risk | $1,283 | $953 |

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

55

Table of Contents

We view average VaR over a period of time as more representative of trends in the business than VaR at any single point in time. The table below illustrates the daily high, low and average value-at-risk calculated for each component of market risk during the three months ended March 31, 2013 and the year ended December 31, 2012, respectively.

| (Dollars in thousands) | High | Low | Average |
|---|---|---|---|
| For the Three Months Ended March 31, 2013 | | | |
| Interest Rate Risk | $1,817 | $578 | $1,044 |
| Equity Price Risk | 2,429 | 575 | 1,218 |
| Diversification Effect (1) | | | (901) |
| Total Value-at-Risk | $2,236 | $865 | $1,361 |

| (Dollars in thousands) | High | Low | Average |
|---|---|---|---|
| For the Year Ended December 31, 2012 | | | |
| Interest Rate Risk | $1,273 | $369 | $780 |
| Equity Price Risk | 2,664 | 170 | 995 |
| Diversification Effect (1) | | | (716) |
| Total Value-at-Risk | $2,451 | $539 | $1,059 |

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

Trading losses did not exceed our one-day VaR on any occasions during the first quarter of 2013.

The aggregate VaR as of March 31, 2013 was higher than the reported VaR on December 31, 2012. The increase in VaR is due to growth in fixed income trading inventories in assets classes that are accretive to VaR.

In addition to VaR, we also employ additional measures to monitor and manage market risk exposure including the following: net market position, duration exposure, option sensitivities, and inventory turnover. All metrics are aggregated by asset concentration and are used for monitoring limits and exception approvals.

Liquidity Risk

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

We are also exposed to liquidity risk in our day-to-day funding activities. We have a relatively low leverage ratio of 2.7 and adjusted leverage ratio of 3.4 as of March 31, 2013, as discussed above. We manage liquidity risk by diversifying our funding sources across products and among individual counterparties within those products. For example, our treasury department actively manages the use of our committed bank line, repurchase agreements, commercial paper issuance and secured and unsecured bank borrowings each day depending on pricing, availability of funding, available collateral and lending parameters from any one of these sources.

In addition to managing our capital and funding, the treasury department oversees the management of net interest income risk and the overall use of our capital, funding, and balance sheet.

We currently act as the remarketing agent for approximately $3.9 billion of variable rate demand notes, the majority of which have a financial institution providing a liquidity guarantee. At certain times, demand from buyers of variable rate demand notes is less than the supply generated by sellers of these instruments. In times of supply and demand imbalance, we may (but are not obligated to) facilitate liquidity by purchasing variable rate demand notes from sellers for our own account. Our liquidity risk related to variable rate demand notes is ultimately mitigated by our ability to tender these securities back to the financial institution providing the liquidity guarantee.

Table of Contents

Credit Risk

Credit risk in our business arises from potential non-performance by counterparties, customers, borrowers or issuers of securities we hold in our trading inventory. The global credit crisis also has created increased credit risk, particularly counterparty risk, as the interconnectedness of the financial markets has caused market participants to be impacted by systemic pressure, or contagion, that results from the failure or potential failure of market participants. We manage this risk by imposing and monitoring position limits for each counterparty, monitoring trading counterparties, conducting credit reviews of financial counterparties, and conducting business through clearing organizations, which guarantee performance.

We have concentrated counterparty credit exposure with six non-publicly rated entities totaling $29.1 million at March 31, 2013. This counterparty credit exposure is part of our derivative program, consisting primarily of interest rate swaps. One derivative counterparty represents 54.9 percent, or $16.0 million, of this exposure. Credit exposure associated with our derivative counterparties is driven by uncollateralized market movements in the fair value of the interest rate swap contracts and is monitored regularly by our financial risk committee. We attempt to minimize the credit (or repayment) risk in derivative instruments by entering into transactions with high-quality counterparties that are reviewed periodically by senior management.

We are exposed to credit risk in our role as a trading counterparty to dealers and customers, as a holder of securities and as a member of exchanges and clearing organizations. Our client activities involve the execution, settlement and financing of various transactions. Client activities are transacted on a delivery versus payment, cash or margin basis. Our credit exposure to institutional client business is mitigated by the use of industry-standard delivery versus payment through depositories and clearing banks.

Credit exposure associated with our customer margin accounts in the U.S. is monitored daily. Our risk management functions have credit risk policies establishing appropriate credit limits and collateralization thresholds for our customers utilizing margin lending.

Merchant banking debt investments that have been funded are recorded in other assets at amortized cost on the consolidated statements of financial condition. At March 31, 2013, we had two funded merchant banking debt investments totaling $14.8 million. Merchant banking investments are monitored regularly by our financial risk committee.

Our risk management functions review risk associated with institutional counterparties with whom we hold repurchase and resale agreement facilities, stock borrow or loan facilities, derivatives, TBAs and other documented institutional counterparty agreements that may give rise to credit exposure. Counterparty levels are established relative to the level of counterparty ratings and potential levels of activity.

We are subject to credit concentration risk if we hold large individual securities positions, execute large transactions with individual counterparties or groups of related counterparties, extend large loans to individual borrowers or make substantial underwriting commitments. Concentration risk can occur by industry, geographic area or type of client. Potential credit concentration risk is carefully monitored through review of counterparties and borrowers and is managed through the use of policies and limits.

We also are exposed to the risk of loss related to changes in the credit spreads of debt instruments. Credit spread risk arises from potential changes in an issuer’s credit rating or the market’s perception of the issuer’s credit worthiness. We use credit default swap index contracts to mitigate this risk.

Operational Risk

Operational risk refers to the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. We rely on the ability of our employees, our internal systems and processes and systems at computer centers operated by third parties to process a large number of transactions. In the event of a breakdown or improper operation of our systems or processes or improper action by our employees or third-party vendors, we could suffer financial loss, a disruption of our businesses, regulatory sanctions and damage to our reputation. We have business continuity plans in place that we believe will cover critical processes on a company-wide basis, and redundancies are built into our systems as we have deemed appropriate. These control mechanisms attempt to ensure that operations policies and procedures are being followed and that our various businesses are operating within established corporate policies and limits.

Table of Contents

Legal, Regulatory and Compliance Risk

Legal, regulatory and compliance risk includes the risk of non-compliance with applicable legal and regulatory requirements and the risk that a counterparty's performance obligations will be unenforceable. We are generally subject to extensive regulation in the various jurisdictions in which we conduct our business. We have established procedures that are designed to ensure compliance with applicable statutory and regulatory requirements, including, but not limited to, those related to regulatory net capital requirements, sales and trading practices, use and safekeeping of customer funds and securities, credit extension, money-laundering, privacy and recordkeeping.

We have established internal policies relating to ethics and business conduct, and compliance with applicable legal and regulatory requirements, as well as training and other procedures designed to ensure that these policies are followed.

Reputation and Other Risk

We recognize that maintaining our reputation among clients, investors, regulators and the general public is critical. Maintaining our reputation depends on a large number of factors, including the conduct of our business activities and the types of clients and counterparties with whom we conduct business. We seek to maintain our reputation by conducting our business activities in accordance with high ethical standards and performing appropriate reviews of clients and counterparties.

Other risks include political, regulatory and tax risks. These risks reflect the potential impact that changes in local and international laws and tax statutes have on the economics and viability of current or future transactions. In an effort to mitigate these risks, we review new and pending regulations and legislation. For example, policy discussions surrounding the debt and deficits of the federal government have resulted in various proposals to increase revenue, including through restructuring of the federal tax code, which could affect our business. Specifically, the American Jobs Act of 2011 and the Debt Reduction Act of 2011 proposed capping tax-exempt interest for higher-income taxpayers, and the Bipartisan Tax Fairness and Simplification Act, introduced in the U.S. Senate earlier in 2011, proposed the use of tax-credit bonds over tax-exempt bonds. Any of these proposals, or ones like them, could have a negative impact on our public finance business and the value of municipal securities inventory positions.

Effects of Inflation

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

ITEM 4. CONTROLS AND PROCEDURES.

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

During the first quarter of our fiscal year ended December 31, 2013, there was no change in our system of internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

The discussion of our business and operations should be read together with the legal proceedings contained in Part I, Item 3 "Legal Proceedings" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

ITEM 1A. RISK FACTORS.

The discussion of our business and operations should be read together with the risk factors contained in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2012. These risk factors describe various risks and uncertainties to which we are or may become subject. These risks and uncertainties have the potential to affect our business, financial condition, results of operations, cash flows, strategies or prospects in a material and adverse manner.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

The table below sets forth the information with respect to purchases made by or on behalf of Piper Jaffray Companies or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of our common stock during the quarter ended March 31, 2013.

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares Yet to be Purchased Under the Plans or Programs (1) | |
|---|---|---|---|---|---|
| Month #1 (January 1, 2013 to January 31, 2013) | 119 | $32.13 | — | $95 | million |
| Month #2 (February 1, 2013 to February 28, 2013) | 329,361 | $41.01 | — | $95 | million |
| Month #3 (March 1, 2013 to March 31, 2013) | 11,309 | $36.97 | — | $95 | million |
| Total | 340,789 | $40.87 | — | $95 | million |

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

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

Table of Contents

ITEM 6. EXHIBITS.

| Exhibit Number | Description | Method of Filing |
|---|---|---|
| 2.1 | Agreement of Purchase and Sale dated March 8, 2013 among Piper Jaffray Asset Management Inc., Piper Jaffray Companies, Fiduciary Asset Management LLC, The Wiley Angell Family Trust, and Wiley D. Angell. | (1) |
| 2.2 | Agreement and Plan of Merger dated April 16, 2013 among Piper Jaffray Companies, Piper Jaffray & Co., Piper Jaffray Newco Inc., Seattle-Northwest Securities Corporation and Karl Leaverton, as representative of the shareholders. | (2) |
| 10.1 | Second Amendment to Employment Agreement, entered into effective as of January 30, 2013, by and between the Company and Brien M. O'Brien. † | (3) |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification of Chairman and Chief Executive Officer. | Filed herewith |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer. | Filed herewith |
| 32.1 | Section 1350 Certifications. | Filed herewith |
| 101 | Interactive data files pursuant to Rule 405 Registration S-T: (i) the Consolidated Statements of Financial Condition as of March 31, 2013 and December 31, 2012, (ii) the Consolidated Statements of Operations for the three months ended March 31, 2013 and 2012, (iii) the Consolidated Statements of Comprehensive Income for the three months ended March 31, 2013 and 2012, (iv) the Consolidated Statements of Cash Flows for the three months ended March 31, 2013 and 2012 and (v) the notes to the Consolidated Financial Statements. | Filed herewith |

† Denotes management contract or compensatory plan or arrangement required to be filed as an exhibit to this report.

(1) Filed as an exhibit to the Company's Form 8-K filing with the Securities and Exchange Commission on March 11, 2013 and incorporated herein by reference.

(2) Filed as an exhibit to the Company's Form 8-K filing with the Securities and Exchange Commission on April 17, 2013 and incorporated herein by reference.

(3) Filed as an exhibit to the Company's Form 8-K filing with the Securities and Exchange Commission on February 8, 2013 and incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on May 3, 2013.

PIPER JAFFRAY COMPANIES

| | |
|---|---|
| By | /s/ Andrew S. Duff |
| Its | Chairman and Chief Executive Officer |
| | |
| By | /s/ Debbra L. Schoneman |
| Its | Chief Financial Officer |

Exhibit Index

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62