PIPER JAFFRAY COMPANIES (PJC)

10–Q

Quarterly report pursuant to sections 13 or 15(d)
Filed on 11/3/2010
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10–Q

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Quarterly Period Ended September 30, 2010

OR

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

Commission File No. 001–31720

PIPER JAFFRAY COMPANIES
(Exact Name of Registrant as specified in its Charter)

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non–accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b–2 of the Exchange Act. (Check one):

Large accelerated filer: ☑ Accelerated filer: ☐ Non–accelerated filer: ☐ (Do not check if a smaller reporting company) Smaller reporting company: ☐

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b–2). Yes ☐ No ☑

As of October 29, 2010, the registrant had 20,790,540 shares of Common Stock outstanding.

Piper Jaffray Companies
Index to Quarterly Report on Form 10–Q

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

Piper Jaffray Companies
Consolidated Statements of Financial Condition

(Amounts in thousands, except share data)	**September 30, 2010** (Unaudited)	December 31, 2009
Assets		
Cash and cash equivalents	**$ 38,504**	$ 43,942
Cash and cash equivalents segregated for regulatory purposes	**20,006**	9,006
Receivables:		
Customers	**80,608**	71,859
Brokers, dealers and clearing organizations	**145,952**	262,061
Securities purchased under agreements to resell	**259,861**	149,682
Financial instruments and other inventory positions owned	**523,816**	662,618
Financial instruments and other inventory positions owned and pledged as collateral	**415,529**	137,371
Total financial instruments and other inventory positions owned	**939,345**	799,989
Fixed assets (net of accumulated depreciation and amortization of $64,101 and $59,563, respectively)	**20,419**	16,596
Goodwill	**316,934**	164,625
Intangible assets (net of accumulated amortization of $16,049 and $10,686, respectively)	**61,763**	12,067
Other receivables	**52,772**	33,868
Other assets	**124,626**	139,635
Total assets	**$ 2,060,790**	$ 1,703,330
Liabilities and Shareholders' Equity		
Short–term financing	**$ 107,023**	$ 90,079
Variable rate senior notes	**120,000**	120,000
Payables:		
Customers	**62,292**	48,179
Brokers, dealers and clearing organizations	**75,308**	71,818
Securities sold under agreements to repurchase	**313,377**	36,134
Financial instruments and other inventory positions sold, but not yet purchased	**400,778**	335,795
Accrued compensation	**88,741**	157,022
Other liabilities and accrued expenses	**88,589**	65,687
Total liabilities	**1,256,108**	924,714
Shareholders' equity:		
Common stock, $0.01 par value:		
Shares authorized: 100,000,000 at September 30, 2010 and December 31, 2009;		
Shares issued: 19,509,813 at September 30, 2010 and 19,504,948 at December 31, 2009;		
Shares outstanding: 14,702,043 at September 30, 2010 and 15,633,690 at December 31, 2009	**195**	195
Additional paid–in capital	**836,013**	803,553
Retained earnings	**170,135**	155,193
Less common stock held in treasury, at cost: 4,807,770 shares at September 30, 2010 and 3,871,258 shares at December 31, 2009	**(202,508)**	(181,443)
Other comprehensive income	**847**	1,118
Total shareholders' equity	**804,682**	778,616
Total liabilities and shareholders' equity	**$ 2,060,790**	$ 1,703,330

See Notes to Consolidated Financial Statements

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Piper Jaffray Companies
Consolidated Statements of Operations
(Unaudited)

(Amounts in thousands, except per share data)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Revenues:				
Investment banking	**$ 56,243**	$ 48,115	**$ 171,736**	$ 134,615
Institutional brokerage	**40,432**	59,576	**121,611**	175,455
Interest	**11,497**	11,854	**39,259**	29,024
Asset management	**16,812**	3,568	**41,839**	9,817
Other income/(loss)	**(368)**	3,340	**6,054**	(1,209)
Total revenues	**124,616**	126,453	**380,499**	347,702
Interest expense	**8,153**	6,784	**26,797**	11,861
Net revenues	**116,463**	119,669	**353,702**	335,841
Non–interest expenses:				
Compensation and benefits	**66,058**	71,802	**208,832**	201,503
Occupancy and equipment	**8,853**	7,703	**24,578**	21,901
Communications	**5,943**	5,474	**18,631**	17,003
Floor brokerage and clearance	**2,879**	2,974	**8,803**	9,088
Marketing and business development	**5,863**	5,498	**17,280**	13,362
Outside services	**7,945**	6,234	**23,684**	21,168
Restructuring–related expenses	**1,333**	–	**1,333**	3,572
Other operating expenses	**4,011**	4,402	**15,992**	10,700
Total non–interest expenses	**102,885**	104,087	**319,133**	298,297
Income before income tax expense	**13,578**	15,582	**34,569**	37,544
Income tax expense	**6,524**	6,316	**19,627**	19,427
Net income	**$ 7,054**	$ 9,266	**$ 14,942**	$ 18,117
Net income applicable to common shareholders	**$ 5,415**	$ 7,576	**$ 11,671**	$ 14,863
Earnings per common share				
Basic	$ 0.36	$ 0.47	$ 0.75	$ 0.93
Diluted	$ 0.36	$ 0.47	$ 0.75	$ 0.93
Weighted average number of common shares outstanding				
Basic	15,035	16,031	15,588	16,001
Diluted	15,038	16,131	15,626	16,039

See Notes to Consolidated Financial Statements

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Piper Jaffray Companies
Consolidated Statements of Cash Flows
(Unaudited)

(Dollars in thousands)	Nine Months Ended September 30, 2010	2009
Operating Activities:		
Net income	**$ 14,942**	$ 18,117
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of fixed assets	**5,475**	5,318
Deferred income taxes	**13,385**	7,778
Stock–based compensation	**16,140**	31,515
Amortization of intangible assets	**5,363**	1,842
Amortization of forgivable loans	**5,411**	3,967
Decrease/(increase) in operating assets:		
Cash and cash equivalents segregated for regulatory purposes	**(11,000)**	10,999
Receivables:		
Customers	**(8,856)**	(16,518)
Brokers, dealers and clearing organizations	**116,098**	(6,087)
Securities purchased under agreements to resell	**(110,179)**	(100,675)
Securitized municipal tender option bonds	**–**	55,694
Net financial instruments and other inventory positions owned	**(74,363)**	(28,244)
Other receivables	**(15,489)**	(2,312)
Other assets	**1,912**	31,049
Increase/(decrease) in operating liabilities:		
Payables:		
Customers	**14,166**	3,484
Brokers, dealers and clearing organizations	**29,253**	68,536
Securities sold under agreements to repurchase	**33,988**	13,111
Tender option bond trust certificates	**–**	(59,262)
Accrued compensation	**(50,131)**	13,228
Other liabilities and accrued expenses	**20,227**	4,851
Net cash provided by operating activities	**6,342**	56,391
Investing Activities:		
Business acquisitions, net of cash acquired	**(182,105)**	–
Purchases of fixed assets, net	**(8,961)**	(2,275)
Net cash used in investing activities	**(191,066)**	(2,275)
Financing Activities:		
Decrease in securities loaned	**(25,988)**	–
Increase/(decrease) in securities sold under agreements to repurchase	**243,255**	(53,068)
Increase in short–term financing	**16,938**	4,000
Repurchase of common stock	**(54,902)**	(12,601)
Reduced tax benefits from stock–based compensation	**–**	(2,941)
Proceeds from stock option transactions	**98**	951
Net cash provided by/(used in) financing activities	**179,401**	(63,659)
Currency adjustment:		
Effect of exchange rate changes on cash	**(115)**	335
Net decrease in cash and cash equivalents	**(5,438)**	(9,208)
Cash and cash equivalents at beginning of period	**43,942**	49,848
Cash and cash equivalents at end of period	**$ 38,504**	$ 40,640
Supplemental disclosure of cash flow information –		
Cash paid/(received) during the period for:		
Interest	**$ 27,908**	$ 3,225
Income taxes	**$ 4,539**	$ (33,897)
Non–cash investing activities –		
Issuance of common stock for acquisition of Advisory Research Holdings, Inc.:		
893,105 shares for the nine months ended September 30, 2010	**$ 31,822**	$ –
Non–cash financing activities –		
Issuance of common stock for retirement plan obligations:		
81,696 shares and 134,700 shares for the nine months ended September 30, 2010 and 2009, respectively	**$ 3,634**	$ 3,756

Issuance of restricted common stock for annual equity award:		
699,673 shares and 585,198 shares for the nine months ended September 30, 2010 and 2009, respectively	**$ 31,121**	$ 16,331

See Notes to Consolidated Financial Statements

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

Note 1 *Background*

Piper Jaffray Companies is the parent company of Piper Jaffray & Co. (“Piper Jaffray”), a securities broker dealer and investment banking firm; Piper Jaffray Asia Holdings Limited, an entity providing investment banking services in China headquartered in Hong Kong; Piper Jaffray Ltd., a firm providing securities brokerage and investment banking services in Europe headquartered in London, England; Advisory Research Holdings, Inc. (“ARI”) and Fiduciary Asset Management, LLC (“FAMCO”), entities providing asset management services to separately managed accounts, closed end funds and partnerships; Piper Jaffray Financial Products Inc., Piper Jaffray Financial Products II Inc. and Piper Jaffray Financial Products III Inc., entities that facilitate derivative transactions; and other immaterial subsidiaries. Piper Jaffray Companies and its subsidiaries (collectively, the “Company”) operate in two reporting segments: Capital Markets and Asset Management. A summary of the activities of each of the Company’s business segments is as follows:

Capital Markets

The Capital Markets segment provides institutional sales, trading and research services and investment banking services. Institutional sales, trading and research services focus on the trading of equities 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, profits and losses from trading these securities and strategic trading opportunities. 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.

Asset Management

The Asset Management segment provides asset management services and products in equity and fixed income securities to institutional and high net worth individuals through proprietary distribution channels. Revenues are generated in the form of management fees and performance fees. The majority of the Company’s performance fees, if earned, are recognized in the fourth quarter.

Basis of Presentation

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. All material intercompany balances have been eliminated. Certain financial information for prior periods has been reclassified to conform to the current period presentation.

The consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”) with respect to Form 10−Q and reflect all adjustments that in the opinion of management are normal and recurring and that are necessary for a fair statement of the results for the interim periods presented. In accordance with these rules and regulations, certain disclosures that are normally included in annual financial statements have been omitted. The consolidated financial statements included in this Form 10−Q should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10−K for the year ended December 31, 2009.

The consolidated financial statements are prepared in conformity with U.S. generally accepted accounting principles. These principles require management to make certain estimates and assumptions that may affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The nature of the Company’s business is such that the results of any interim period may not be indicative of the results to be expected for a full year.

Note 2 *Summary of Significant Accounting Policies*

Refer to the Company’s Annual Report on Form 10−K for the year ended December 31, 2009, for a full description of the Company’s significant accounting policies. Changes to the Company’s significant accounting policies are described below.

Principles of Consolidation

The consolidated financial statements include the accounts of Piper Jaffray Companies, its wholly owned subsidiaries, and all other entities in which the Company has a controlling financial interest. All material intercompany balances have been eliminated. The Company determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity ("VIE").

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

As defined in ASC 810, VIEs are entities that lack one or more of the characteristics of a voting interest entity described above. With the exception of entities eligible for the deferral codified in FASB Accounting Standards Update ("ASU") No. 2010−10, "Consolidation: Amendments for Certain Investment Funds," ("ASU 2010−10") (generally asset managers and investment companies), ASC 810 states that a controlling financial interest in an entity is present when an enterprise has a variable interest, or combination of variable interests, that have both the power to direct the activities of the entity that most significantly impact the entity's economic performance and the obligation to absorb losses of the entity or the rights to receive benefits from the entity that could potentially be significant to the entity. Accordingly, the Company consolidates VIEs in which the Company has a controlling financial interest. For more on ASC 810 and VIEs, please see "Consolidation of Variable Interest Entities" under Adoption of New Accounting Standards in Note 3 below.

Entities meeting the deferral provision defined by ASU 2010−10 (generally asset managers and investment companies) are evaluated under the historical VIE guidance. Under the historical guidance, a controlling financial interest in an entity is present when an enterprise has a variable interest, or combination of variable interests, that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both. The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE. Accordingly, the Company consolidates VIEs subject to the deferral provisions defined by ASU 2010−10 in which the Company is deemed to be the primary beneficiary.

When the Company does not have a controlling financial interest in an entity but exerts significant influence over the entity's operating and financial policies (generally defined as owning a voting or economic interest of between 20 percent to 50 percent), the Company accounts for its investment in accordance with the equity method of accounting prescribed by FASB Accounting Standards Codification Topic 323, "Investments — Equity Method and Joint Ventures" ("ASC 323"). If the Company does not have a controlling financial interest in, or exert significant influence over, an entity, the Company accounts for its investment at cost.

Note 3 *Recent Accounting Pronouncements*

Adoption of New Accounting Standards

Accounting for Transfers of Financial Assets

In June 2009, the FASB issued guidance amending the Accounting Standards Codification Topic 860, "Transfers and Servicing," ("ASC 860") designed to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. Additionally, the new guidance eliminates the qualifying special−purpose entity ("QSPE") concept. The updates were effective for the Company January 1, 2010. The recognition and measurement provisions were effective for prospective transfers with the exception of existing QSPEs which must be evaluated at the time of adoption. The disclosures required by ASC 860 are applied to both retrospective and prospective transfers. The adoption of ASC 860 did not have an impact on the Company's consolidated financial statements.

Consolidation of Variable Interest Entities

In June 2009, the FASB updated the accounting standard related to the consolidation of variable interest entities ("VIE"). The standard requires, among other things, a qualitative rather than quantitative analysis to determine the primary beneficiary ("PB") of the VIE, continuous assessments of whether the entity is the PB of the VIE, and enhanced disclosures about involvement with VIEs. This standard was effective for the Company January 1, 2010 and is applicable to all entities with which the enterprise has involvement, regardless of when that involvement arose. The adoption of the new standard did not have an impact on the Company's consolidated financial statements.

In February 2010, the FASB issued ASU 2010–10, which addresses the application of the amendments to VIE consolidation described above by reporting entities in the asset management industry by deferring the effective date of the standard's new recognition and measurement requirements for certain investment funds. However, the standard's new disclosure requirements will continue to apply to all entities. ASU 2010–10 was effective for the Company January 1, 2010. The adoption of this standard led to the deferral of the application of the updated consolidation guidance in ASC 810 to certain of the Company's investment funds within the scope of ASU 2010–10.

Fair Value Measurements

In January 2010, the FASB issued ASU No. 2010–06, "Improving Disclosures about Fair Value Measurements," ("ASU 2010–06") amending FASB Accounting Standards Codification Topic 820, "Fair Value Measurements and Disclosures" ("ASC 820"). The amended guidance requires entities to disclose additional information regarding assets and liabilities that are transferred between levels of the fair value hierarchy and to disclose information in the Level III rollforward about purchases, sales, issuances and settlements on a gross basis. ASU 2010–06 also further clarifies existing guidance pertaining to the level of disaggregation at which fair value disclosures should be made and the requirements to disclose information about the valuation techniques and inputs used in estimating Level II and Level III fair value measurements. The guidance in ASU 2010–06 was effective for the Company January 1, 2010, except for the requirement to separately disclose purchases, sales, issuances, and settlements on a gross basis in the Level III rollforward, which becomes effective for fiscal years (and for interim periods within those fiscal years) beginning after December 15, 2010. While the adoption of ASU 2010–06 did not change accounting requirements, it did impact the Company's disclosures about fair value measurements.

Note 4 *Acquisition of Advisory Research Holdings, Inc.*

On March 1, 2010, the Company completed the purchase of Advisory Research Holdings, Inc. ("ARI"), an asset management firm based in Chicago, Illinois. The purchase was completed pursuant to the securities purchase agreement dated December 20, 2009. The fair value as of the acquisition date was $212.1 million, consisting of $180.3 million in cash and 893,105 shares (881,846 of which vest in four equal installments over the next four years) of the Company's common stock valued at $31.8 million. The fair value of the 881,846 shares of common stock with vesting restrictions was determined using the market price of the Company's common stock on the date of the acquisition discounted for the liquidity restrictions in accordance with the valuation principles of ASC 820. The vesting provisions of these 881,846 shares are principally time–based, but also include certain post–termination restrictions. The remaining 11,259 shares have no vesting restrictions and the fair value was determined using the market price of the Company's common stock on the date of the acquisition. A portion of the purchase price payable in cash was funded by proceeds from the issuance of variable rate senior notes ("Notes") in the amount of $120 million pursuant to the note purchase agreement ("Note Purchase Agreement") dated December 31, 2009 with certain entities advised by Pacific Investment Management Company LLC ("PIMCO").

The acquisition was accounted for under the acquisition method of accounting in accordance with ASC 805, "Business Combinations." Accordingly, goodwill was measured as the excess of the acquisition–date fair value of the consideration transferred over the amount of acquisition–date identifiable assets acquired net of assumed liabilities. The Company recorded $152.3 million of goodwill as an asset in the consolidated statement of financial condition, which is expected to be deductible for tax purposes and has been allocated to the Company's Asset Management segment. In management's opinion, the goodwill represents the reputation and expertise of ARI in the asset management business.

Identifiable intangible assets purchased by the Company consisted of customer relationships and the ARI trade name with acquisition–date fair values of $52.2 million and $2.9 million, respectively. Acquisition costs of $1.5 million were incurred in the fourth quarter of 2009 and $96,000 of acquisition costs were incurred in the nine months ended September 30, 2010, and are included in outside services on the consolidated statement of operations.

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The following table summarizes the fair value of assets acquired and liabilities assumed at the date of the acquisition:

(Dollars in thousands)	
Assets:	
Cash and cash equivalents	$ 2,008
Other receivables	8,861
Fixed assets	377
Goodwill	152,282
Intangible assets	55,059
Other assets	369
Total assets acquired	218,956
Liabilities:	
Accrued compensation	149
Other liabilities and accrued expenses	6,726
Total liabilities assumed	6,875
Net assets acquired	$ 212,081

ARI's results of operations have been included in the consolidated Company's financial statements prospectively beginning on the date of acquisition. Since the date of acquisition, ARI had net revenues of $28.3 million and net income of $6.3 million. The following unaudited pro forma financial data assumes the acquisition had occurred at the beginning of each period presented. Pro forma results have been prepared by adjusting the consolidated Company's historical results to include ARI's results of operations adjusted for the following changes: depreciation and amortization expenses were adjusted as a result of acquisition–date fair value adjustments to fixed assets, intangible assets, deferred acquisition costs and lease obligations; interest expense was adjusted for revised debt structures; and the income tax effect of applying the Company's statutory tax rates to ARI's results. The consolidated Company's unaudited pro forma information presented does not necessarily reflect the results of operations that would have resulted had the acquisition been completed at the beginning of the applicable periods presented, nor does it indicate the results of operations in future periods.

(Dollars in thousands)	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Net revenues	$ 129,123	**$ 361,748**	$ 361,747
Net income	$ 10,880	**$ 16,689**	$ 21,889

Note 5 *Financial Instruments and Other Inventory Positions Owned and Financial Instruments and Other Inventory Positions Sold, but Not Yet Purchased*
Financial instruments and other inventory positions owned and financial instruments and other inventory positions sold, but not yet purchased were as follows:

(Dollars in thousands)	**September 30, 2010**	December 31, 2009
Financial instruments and other inventory positions owned:		
Corporate securities:		
Equity securities	**$ 31,502**	$ 3,070
Convertible securities	**57,268**	75,295
Fixed income securities	**132,009**	112,825
Municipal securities:		
Taxable securities	**232,133**	151,144
Tax–exempt securities	**142,983**	147,809
Short–term securities	**66,500**	25,204
Asset–backed securities	**68,272**	70,425
U.S. government agency securities	**165,104**	125,576
U.S. government securities	**5,567**	70,111
Derivative contracts	**38,007**	18,530
	$ 939,345	$ 799,989
Financial instruments and other inventory positions sold, but not yet purchased:		
Corporate securities:		
Equity securities	**$ 30,692**	$ 26,474
Convertible securities	**5,748**	3,678
Fixed income securities	**29,287**	122,339
Asset–backed securities	**13,899**	8,937
U.S. government agency securities	**62,970**	67,001
U.S. government securities	**248,723**	102,911
Derivative contracts	**9,459**	4,455
	$ 400,778	$ 335,795

At September 30, 2010, and December 31, 2009, financial instruments and other inventory positions owned in the amount of $415.5 million and $137.4 million, respectively, had been pledged as collateral for the Company’s repurchase agreements, secured borrowings and securities loaned.
Inventory positions sold, but not yet purchased represent obligations of the Company to deliver the specified security at the contracted price, thereby creating a liability to purchase the security in the market at prevailing prices. The Company is obligated to acquire the securities sold short at prevailing market prices, which may exceed the amount reflected on the consolidated statements of financial condition. The Company economically hedges changes in market value of its financial instruments and other inventory positions owned utilizing inventory positions sold, but not yet purchased, interest rate derivatives, credit default swap index contracts, futures and exchange–traded options.

Derivative Contract Financial Instruments

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

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Customer matched–book derivatives: The Company enters into interest rate derivative contracts in a principal capacity as a dealer to satisfy the financial needs of its customers. The Company simultaneously enters into an interest rate derivative contract with a third party for the same notional amount to hedge the interest rate and credit risk of the initial client interest rate derivative contract. In certain limited instances, the Company has only hedged interest rate risk with a third party, and retains uncollateralized credit risk as described below. The instruments use interest rates based upon either the London Interbank Offer Rate ("LIBOR") index or the Securities Industry and Financial Markets Association ("SIFMA") index.
Trading securities derivatives: The Company enters into interest rate derivative contracts to hedge interest rate and market value risks associated with its fixed income securities. The instruments use interest rates based upon either the Municipal Market Data ("MMD") index or the SIFMA index. The Company also enters into credit default swap index contracts to hedge credit risk associated with its taxable fixed income securities.
Firm Investments: The Company enters into foreign currency forward contracts to manage the currency exposure related to its non–U.S. dollar denominated firm investments.
The following table presents the total absolute notional contract amount associated with the Company's outstanding derivative instruments:

(Dollars in thousands)		September 30,	December 31,
Transaction Type or Hedged Security	**Derivative Category**	**2010**	2009
Customer matched–book	Interest rate derivative contract	**$ 6,470,899**	$ 6,795,186
Trading securities	Interest rate derivative contract	**202,250**	234,500
Trading securities	Credit default swap index contract	**140,000**	–
Firm investments	Foreign currency forward contract	**4,891**	–
		$ 6,818,040	$ 7,029,686

The Company's interest rate derivative contracts, credit default swap index contracts and foreign currency forward contracts do not qualify for hedge accounting, therefore, unrealized gains and losses are recorded on the consolidated statements of operations. The following table presents the Company's unrealized gains/(losses) on derivative instruments:

(Dollars in thousands)		Three Months Ended		Nine Months Ended	
Derivative Category	**Operations Category**	**Sept. 30, 2010**	Sept. 30, 2009	**Sept. 30, 2010**	Sept. 30, 2009
Interest rate derivative contract	Investment banking	**$ 6,434**	$ (668)	**$ 3,566**	$ 5,305
Interest rate derivative contract	Institutional brokerage	**(2,299)**	(6,606)	**(2,485)**	(997)
Credit default swap index contract	Institutional brokerage	**(3,492)**	–	**(419)**	–
Foreign currency forward contract	Other operating expenses	**(502)**	–	**12**	–
		$ 141	$ (7,274)	**$ 674**	$ 4,308

The gross fair market value of all derivative instruments and their location on the Company's consolidated statements of financial condition prior to counterparty and cash collateral netting are shown below by asset or liability position *(1)*:

(Dollars in thousands)		Asset Value at		Liability Value at
Derivative Category	**Financial Condition Location**	**Sept. 30, 2010**	**Financial Condition Location**	**Sept. 30, 2010**
Interest rate derivative contract	Financial intruments and other inventory positions owned	$ 576,711	Financial intruments and other inventory positions sold, but not yet purchased	$ 540,532
Credit default swap index contract	Financial intruments and other inventory positions owned	402	Financial intruments and other inventory positions sold, but not yet purchased	225
Foreign currency forward contract	Financial intruments and other inventory positions owned	–	Financial intruments and other inventory positions sold, but not yet purchased	399
		$ 577,113		$ 541,156

(1) *Amounts are disclosed at gross fair value in accordance with the requirement of ASC 815.*

Depending upon the product and terms of the transaction, the fair value of the Company's derivative contracts can be observed or priced using models based on the net present value of estimated future cash flows. The inputs for the valuation models include contractual terms, market prices, yield curves, credit curves and measures of volatility. Derivatives are reported on a net basis by counterparty when legal right of offset exists and when applicable provisions are stated in master netting agreements. Cash collateral received or paid is netted on a counterparty basis, provided a legal right of offset exists.

Credit risk associated with the Company's derivatives is the risk that a derivative counterparty will not perform in accordance with the terms of the applicable derivative contract. Credit exposure associated with the Company's derivatives is driven by uncollateralized market movements in the fair value of the contracts with counterparties and is monitored regularly by the Company's financial risk committee. The Company reflects counterparty credit risk in calculating derivative contract fair value. The majority of the Company's derivative contracts are substantially collateralized by its counterparties, who are major financial institutions. The Company has a limited number of counterparties who are not required to post collateral. Based on market movements, the uncollateralized amounts representing the fair value of the derivative contract can become material, exposing the Company to the credit risk of these counterparties. As of September 30, 2010, the Company had $31.4 million of uncollateralized credit exposure with these counterparties (notional contract amount of $268.6 million), including $17.5 million of uncollateralized credit exposure with one counterparty.

Note 6 *Fair Value of Financial Instruments*

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

The degree of judgment used in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Pricing observability is impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established and other characteristics specific to the instrument. Financial instruments with readily available active quoted prices for which fair value can be measured generally will have a higher degree of pricing observability and a lesser degree of judgment used in measuring fair value. Conversely, financial instruments rarely traded or not quoted will generally have less, or no, pricing observability and a higher degree of judgment used in measuring fair value.

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

Cash Equivalents

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

Financial Instruments and Other Inventory Positions Owned

Equity securities — Exchange traded equity securities are valued based on quoted prices from the exchange for identical assets or liabilities as of the period–end date. To the extent these securities are actively traded and valuation adjustments are not applied, they are categorized as Level I. Non–exchange traded equity securities are measured primarily using broker quotations, pricing service data from external providers and prices observed for recently executed market transactions and are categorized within Level II of the fair value hierarchy. Where such information is not available, non–exchange traded equity securities are categorized as Level III financial instruments and measured using valuation techniques involving quoted prices of or market data for comparable companies. When using pricing data of comparable companies, judgment must be applied to adjust the pricing data to account for differences between the measured security and the comparable security (e.g., issuer market capitalization, yield, dividend rate and geographical concentration).

Convertible securities — Convertible securities are valued based on observable trades, when available. Accordingly, these convertible securities are categorized as Level II. When observable price quotations are not available, fair value is determined based upon model–based valuation techniques with observable market inputs, such as specific company stock price and volatility and unobservable inputs such as option adjusted spreads. These instruments are categorized as Level III.

Corporate fixed income securities — Fixed income securities include corporate bonds which are valued based on recently executed market transactions of comparable size, pricing service data from external providers when available, or broker quotations. Accordingly, these corporate bonds are categorized as Level II. When observable price quotations are not available, fair value is determined using model–based valuation techniques with observable inputs such as specific security contractual terms and yield curves and unobservable inputs such as credit spreads. Corporate bonds measured using model–based valuation techniques are categorized as Level III and comprise a limited portion of our corporate bonds.

Taxable municipal securities — Taxable municipal securities are valued using recently executed observable trades or market price quotations and therefore are generally categorized as Level II.
Tax–exempt municipal securities — Tax–exempt municipal securities are valued using recently executed observable trades or market price quotations and therefore are generally categorized as Level II. Certain illiquid tax–exempt municipal securities are categorized as Level III.
Short–term municipal securities — Short–term municipal securities include auction rate securities, variable rate demand notes, and other short–term municipal securities. Auction rate securities were historically traded and valued as floating rate notes, priced at par due to the auction mechanism. Beginning in 2008, the auction rate securities market experienced dislocation due to uncertainties in the credit markets. During 2009, certain areas of the auction rate market began to function; however, lower credit issuers remain illiquid. Accordingly, auction rate securities with limited liquidity were valued based upon internal models with observable inputs such as specific security contractual terms and yield curves and unobservable inputs such as liquidity discounts. These instruments were categorized as Level III. Variable rate demand notes and other short–term municipal securities are valued using recently executed observable trades or market price quotations and therefore are generally categorized as Level II.
Asset–backed securities — Asset–backed securities are valued using observable trades, when available. Certain asset–backed securities are valued using models where inputs to the model are directly observable in the market, or can be derived principally from or corroborated by observable market data. These asset–backed securities are categorized as Level II. Other asset–backed securities, which are principally collateralized by aircraft and have experienced low volumes of executed transactions, result in less observable transaction data. These assets are valued using cash flow models that utilize unobservable inputs including airplane lease rates, aircraft valuation, trust costs, and other factors impacting security cash flows. The Company's aircraft asset–backed securities had a weighted average yield of 6.2% at September 30, 2010. The Company also has a minimal amount of asset–backed securities collateralized by residential mortgages. These are valued using cash flow models that utilize unobservable inputs including credit default rates ranging from 3–10%, prepayment rates ranging from 4–8% of CPR, severity ranging from 50–80% and valuation yields ranging from 6–9%. As judgment is used to determine the range of these inputs, these asset–backed securities are categorized as Level III.
U.S. government agency securities — U.S. government agency securities include agency debt bonds and mortgage bonds. Agency debt bonds are valued by using either direct price quotes or price quotes for comparable bond securities and thus, are categorized as Level II. Mortgage bonds include mortgage bonds, mortgage pass–through securities and agency collateralized mortgage–obligations ("CMO"). Mortgage pass–through securities and CMO securities are valued using recently executed observable trades or other observable inputs, such as prepayment speeds and therefore, generally are categorized as Level II. Mortgage bonds are valued using observable market inputs, such as market yields ranging from 95–165 basis point spreads to treasury securities, or models based upon prepayment expectations ranging from 222–454 Public Securities Association ("PSA") prepayment levels. These securities are categorized as Level II.
U.S. government securities — U.S. government securities include highly liquid U.S. treasury securities which are generally valued using quoted market prices and therefore categorized as Level I.
Derivatives — Derivative contracts include interest rate swaps, interest rate locks, credit default swap index contracts and foreign currency forward contracts. These instruments derive their value from underlying assets, reference rates, indices or a combination of these factors. The majority of the Company's interest rate derivative contracts, including both interest rate swaps and interest rate locks, are valued using market standard pricing models based on the net present value of estimated future cash flows. The valuation models used do not involve material subjectivity as the methodologies do not entail significant judgment and the pricing inputs are market observable, including contractual terms, yield curves and measures of volatility. These instruments are classified as Level II within the fair value hierarchy. The Company's credit default swap index contracts and foreign currency forward contracts are valued using market price quotations and classified as Level II.

Investments

The Company's investments valued at fair value include investments in public companies, warrants of public or private companies and investments in certain illiquid municipal bonds. Exchange traded direct equity investments in public companies are valued based on quoted prices on active markets and reported in Level I. Company–owned warrants, which have a cashless exercise option, are valued based upon the Black–Scholes option–pricing model that uses discount rates and stock volatility factors of comparable companies as inputs. These inputs are subject to management judgment to account for differences between the measured investment and comparable companies. Company–owned warrants are reported as Level III assets. Investments in certain illiquid municipal bonds

that the Company is holding for investment are measured using valuation techniques involving significant management judgment and are reported as Level III assets.
The following table summarizes the valuation of our financial instruments by pricing observability levels defined in ASC 820 as of September 30, 2010:

(Dollars in thousands)	**Level I**	**Level II**	**Level III**	**Counterparty Collateral Netting (1)**	**Total**
Assets:					
Financial instruments and other inventory positions owned:					
Corporate securities:					
Equity securities	$ 10,622	$ 18,600	$ 2,280	$ –	$ 31,502
Convertible securities	–	47,379	9,889	–	57,268
Fixed income securities	–	127,834	4,175	–	132,009
Municipal securities:					
Taxable securities	–	232,133	–	–	232,133
Tax–exempt securities	–	139,630	3,353	–	142,983
Short–term securities	–	66,225	275	–	66,500
Asset–backed securities	–	41,951	26,321	–	68,272
U.S. government agency securities	–	165,104	–	–	165,104
U.S. government securities	5,567	–	–	–	5,567
Derivative instruments	–	75,606	–	(37,599)	38,007
Total financial instruments and other inventory positions owned:	16,189	914,462	46,293	(37,599)	939,345
Cash equivalents	10,652	–	–	–	10,652
Investments	2,582	–	3,147	–	5,729
Total assets	$ 29,423	$ 914,462	$ 49,440	$ (37,599)	$ 955,726
Liabilities:					
Financial instruments and other inventory positions sold, but not yet purchased:					
Corporate securities:					
Equity securities	$ 30,692	$ –	$ –	$ –	$ 30,692
Convertible securities	–	5,748	–	–	5,748
Fixed income securities	–	27,207	2,080	–	29,287
Asset–backed securities	–	10,759	3,140	–	13,899
U.S. government agency securities	–	62,970	–	–	62,970
U.S. government securities	248,723	–	–	–	248,723
Derivative instruments	–	39,649	–	(30,190)	9,459
Total financial instruments and other inventory positions sold, but not yet purchased:	279,415	146,333	5,220	(30,190)	400,778
Investments	–	–	1	–	1
Total liabilities	$ 279,415	$ 146,333	$ 5,221	$ (30,190)	$ 400,779

(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 following table summarizes the valuation of our financial instruments by pricing observability levels defined in ASC 820 as of December 31, 2009:

(Dollars in thousands)	Level I	Level II	Level III	Counterparty Collateral Netting (1)	Total
Assets:					
Financial instruments and other inventory positions owned:					
Corporate securities:					
Equity securities	$ 3,070	$ –	$ –	$ –	$ 3,070
Convertible securities	–	75,295	–	–	75,295
Fixed income securities	–	112,825	–	–	112,825
Municipal securities:					
Taxable securities	–	151,144	–	–	151,144
Tax–exempt securities	–	147,809	–	–	147,809
Short–term securities	–	7,379	17,825	–	25,204
Asset–backed securities	–	46,186	24,239	–	70,425
U.S. government agency securities	–	125,576	–	–	125,576
U.S. government securities	70,111	–	–	–	70,111
Derivative instruments	–	54,391	–	(35,861)	18,530
Total financial instruments and other inventory positions owned:	73,181	720,605	42,064	(35,861)	799,989
Cash equivalents	13,352	–	–	–	13,352
Investments	1,139	–	2,240	–	3,379
Total assets	$ 87,672	$ 720,605	$ 44,304	$ (35,861)	$ 816,720
Liabilities:					
Financial instruments and other inventory positions sold, but not yet purchased:					
Corporate securities:					
Equity securities	$ 26,474	$ –	$ –	$ –	$ 26,474
Convertible securities	–	3,678	–	–	3,678
Fixed income securities	–	114,568	7,771	–	122,339
Asset–backed securities	–	6,783	2,154	–	8,937
U.S. government agency securities	–	67,001	–	–	67,001
U.S. government securities	102,911	–	–	–	102,911
Derivative instruments	–	19,294	–	(14,839)	4,455
Total financial instruments and other inventory positions sold, but not yet purchased:	129,385	211,324	9,925	(14,839)	335,795
Investments	–	–	19	–	19
Total liabilities	$ 129,385	$ 211,324	$ 9,944	$ (14,839)	$ 335,814

(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 $49.4 million and $44.3 million, or 5.2 percent and 5.4 percent of financial instruments measured at fair value as of September 30, 2010, and December 31, 2009, respectively. Transfers between levels are recognized at the beginning of the reporting period. There were $13.2 million of net transfers of financial assets from Level II to Level III during the nine months ended September 30, 2010 related primarily to fixed income securities and asset–backed securities for which no recent trade activity was observed and valuation inputs became unobservable. There were $1.8 million of net transfers of financial liabilities from Level III to Level II for the nine months ended September 30, 2010 related to asset–backed securities for which market trades were observed that provided transparency into the valuation of these liabilities, offset in part by fixed income securities for which valuation inputs became unobservable. Transfers between Level I and Level II were not material for the nine months ended September 30, 2010. At September 30, 2010, the Company's Level II and Level III equities securities increased due to the purchase of non–exchange traded equities securities. Historically, the Company did not hold this type of security for trading purposes.

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The following tables summarize the changes in fair value associated with Level III financial instruments during the nine months ended September 30, 2010 and 2009:

(Dollars in thousands)	Balance at December 31, 2009	Purchases/ (sales), net	Net transfers in/(out)	Realized gains/ (losses) (1)	Unrealized gains/ (losses) (1)	Balance at September 30, 2010
Assets:						
Financial instruments and other inventory positions owned:						
Corporate securities:						
Equity securities	**$ –**	$ 2,411	$ –	$ 9	$ (140)	**$ 2,280**
Convertible securities	**–**	7,103	(86)	1,753	1,119	**9,889**
Fixed income securities	**–**	(2,326)	6,102	575	(176)	**4,175**
Municipal securities:						
Tax–exempt securities	**–**	3,352	–	–	1	**3,353**
Short–term securities	**17,825**	(15,389)	–	(2,291)	130	**275**
Asset–backed securities	**24,239**	(9,678)	7,232	4,621	(93)	**26,321**
Total financial instruments and other inventory positions owned:	**42,064**	(14,527)	13,248	4,667	841	**46,293**
Investments	**2,240**	(365)	–	219	1,053	**3,147**
Total assets	**$ 44,304**	$ (14,892)	$ 13,248	$ 4,886	$ 1,894	**$ 49,440**
Liabilities:						
Financial instruments and other inventory positions sold, but not yet purchased:						
Corporate securities:						
Fixed income securities	**$ 7,771**	$ (7,960)	$ 2,053	$ 7	$ 209	**$ 2,080**
Asset–backed securities	**2,154**	4,768	(3,872)	(95)	185	**3,140**
Total financial instruments and other inventory positions sold, but not yet purchased:	**9,925**	(3,192)	(1,819)	(88)	394	**5,220**
Investments	**19**	(97)	–	(48)	127	**1**
Total liabilities	**$ 9,944**	$ (3,289)	$ (1,819)	$ (136)	$ 521	**$ 5,221**

(Dollars in thousands)	Balance at December 31, 2008	Purchases/ (sales), net	Net transfers in/(out)	Realized gains/ (losses) (1)	Unrealized gains/ (losses) (1)	Balance at September 30, 2009
Assets:						
Financial instruments and other inventory positions owned:						
Corporate securities:						
Convertible securities	**$ 3,671**	$ –	$ (3,671)	$ –	$ –	**$ –**
Fixed income securities	**2,138**	4,451	610	(27)	305	**7,477**
Municipal securities:						
Short–term securities	**17,750**	175	(100)	–	(527)	**17,298**
Asset–backed securities	**22,560**	19,041	12,877	3,025	1,298	**58,801**
U.S. government agency securities	**6**	(1)	(5)	–	–	**–**
Total financial instruments and other inventory positions owned:	**46,125**	23,666	9,711	2,998	1,076	**83,576**
Investments	**433**	(9)	27	–	1,658	**2,109**
Total assets	**$ 46,558**	$ 23,657	$ 9,738	$ 2,998	$ 2,734	**$ 85,685**
Liabilities:						
Financial instruments and other inventory positions sold, but not yet purchased:						
Corporate securities:						
Asset–backed securities	**$ –**	$ 1,341	$ (268)	$ 39	$ (32)	**$ 1,080**
Total financial instruments and other inventory positions sold, but not yet purchased:	**–**	1,341	(268)	39	(32)	**1,080**
Investments	**366**	–	–	–	(347)	**19**
Total liabilities	**$ 366**	$ 1,341	$ (268)	$ 39	$ (379)	**$ 1,099**

(1) Realized and unrealized gains/(losses) related to financial instruments, with the exception of foreign currency forward contracts and customer match–book derivatives, are reported in institutional brokerage on the consolidated statements of operations. Realized and unrealized gains/(losses) related to foreign currency forward contracts are recorded in other operating expenses. Realized and unrealized gains/(losses) related to customer match–book derivatives are reported in investment banking. Realized and unrealized gains/(losses) related to investments are reported in other income/(loss) on the consolidated statements of operations.

Some of the Company's financial instruments are not measured at fair value on a recurring basis, but are recorded at amounts that 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 limited partnerships or limited liability companies. These entities were established for the purpose of investing in equity and debt securities of public and private investments and were initially financed through the capital commitments of the members. The Company has investments in and/or acts as the managing partner or member 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. At September 30, 2010, the Company's aggregate net investment in these investment vehicles totaled $17.8 million. The Company's remaining capital commitments to these entities was $2.7 million at September 30, 2010.

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 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 $787.7 million at September 30, 2010. The Company's exposure to loss from these VIEs is $5.3 million, which is the carrying value of its capital contributions recorded in other assets on the consolidated statement of financial condition at September 30, 2010. The Company had no liabilities related to these VIEs at September 30, 2010.

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 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. It was determined the Company is not the primary beneficiary of these VIEs and accordingly does not consolidate them.

The Company has not provided financial or other support to these VIEs that it was not previously contractually required to provide as of September 30, 2010.

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

Amounts receivable from brokers, dealers and clearing organizations at September 30, 2010 and December 31, 2009 included:

(Dollars in thousands)	**September 30, 2010**	December 31, 2009
Receivable arising from unsettled securities transactions, net	**$ –**	$ 35,324
Deposits paid for securities borrowed	**75,892**	166,399
Receivable from clearing organizations	**16,003**	21,388
Deposits with clearing organizations	**32,375**	18,010
Securities failed to deliver	**14,822**	13,102
Other	**6,860**	7,838
	$ 145,952	$ 262,061

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Amounts payable to brokers, dealers and clearing organizations at September 30, 2010 and December 31, 2009 included:

(Dollars in thousands)	September 30, 2010	December 31, 2009
Payable arising from unsettled securities transactions, net	**$ 45,724**	$ –
Deposits received for securities loaned	**–**	25,988
Payable to clearing organizations	**11,259**	11,975
Securities failed to receive	**7,994**	22,118
Other	**10,331**	11,737
	$ 75,308	$ 71,818

Deposits paid for securities borrowed and deposits received for securities loaned 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, 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.

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. The Company obtained securities with a fair value of approximately $354.1 million and $332.3 million at September 30, 2010 and December 31, 2009, respectively, of which $324.5 million and $144.5 million, respectively, has been either pledged or otherwise transferred to others in connection with the Company's financing activities or to satisfy its commitments under financial instruments and other inventory positions sold, but not yet purchased.

At September 30, 2010, the Company's securities sold under agreements to repurchase ("Repurchase Liabilities") exceeded 10 percent of total assets.

The following is a summary of Repurchase Liabilities and the fair market value of related collateral pledged as of September 30, 2010:

(Dollars in thousands)	Fair Market Value	Repurchase Liabilities	Interest Rates
Overnight maturities:			
Corporate securities:			
Fixed income securities	$ 15,213	$ 12,349	1.23%
Municipal securities:			
Taxable securities	126,519	103,810	1.23%
Tax–exempt securities	23,169	19,118	1.23%
Short–term securities	17,717	14,723	1.23%
On demand maturities:			
Corporate securities:			
Fixed income securities	78,789	73,422	0.65–0.95%
Asset–backed securities	6,564	5,850	0.45%
U.S. government agency securities	91,173	84,105	0.40–0.45%
	$ 359,144	$ 313,377	

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Note 10 *Other Assets*

Other assets include investments in public companies valued at fair value, equity and debt investments in private companies valued at cost, investments in private equity partnerships that are valued using the equity method of accounting, net deferred tax assets and prepaid expenses.

Other assets at September 30, 2010 and December 31, 2009 included:

(Dollars in thousands)	**September 30, 2010**	December 31, 2009
Investments at fair value	**$ 5,729**	$ 3,379
Investments at cost	**27,469**	33,687
Investments valued using equity method	**17,146**	14,825
Net deferred income tax assets	**66,673**	80,058
Prepaid expenses	**5,370**	5,840
Other	**2,239**	1,846
Total other assets	**$ 124,626**	$ 139,635

At September 30, 2010, the estimated fair market value of investments carried at cost totaled $34.5 million. The estimated fair value of investments carried at cost is based upon valuation models and other valuation techniques, which require a large degree of management judgment.

Note 11 *Goodwill and Intangible Assets*

The following table presents the changes in the carrying value of goodwill and intangible assets for the nine months ended September 30, 2010:

(Dollars in thousands)	**Capital Markets**	**Asset Management**	**Total**
Goodwill			
Balance at December 31, 2009	**$ 120,298**	**$ 44,327**	**$ 164,625**
Goodwill recorded in purchase of ARI	–	152,282	152,282
FAMCO earn–out payment adjustment	–	27	27
Balance at September 30, 2010	**$ 120,298**	**$ 196,636**	**$ 316,934**
Intangible assets			
Balance at December 31, 2009	**$ –**	**$ 12,067**	**$ 12,067**
Intangible assets acquired in purchase of ARI	–	55,059	55,059
Amortization of intangible assets	–	(5,363)	(5,363)
Balance at September 30, 2010	**$ –**	**$ 61,763**	**$ 61,763**

The addition of goodwill and intangible assets during the nine months ended September 30, 2010 primarily related to the acquisition of ARI, as discussed in Note 4. Management identified $55.1 million of intangible assets, consisting primarily of the customer relationships ($52.2 million), which are being amortized over a weighted average life of 10 years, and the ARI trade name ($2.9 million), which has an indefinite life and will not be amortized.

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The following table summarizes the aggregate future amortization of the Company's intangible assets:

(Dollars in thousands)	
Years Ended December 31,	
Remainder of 2010	$ 2,184
2011	8,276
2012	7,668
2013	7,325
2014	6,938
Thereafter	26,512
Total	$ 58,903

Note 12 *Short–Term Financing*

The following is a summary of short–term financing and the weighted average interest rates on borrowings as of September 30, 2010 and December 31, 2009:

	Outstanding Balance		**Weighted Average Interest Rate**	
(Dollars in thousands)	**September 30, 2010**	December 31, 2009	**September 30, 2010**	December 31, 2009
Bank lines (secured)	**$ 50,000**	$ 68,000	**1.50%**	1.35%
Commercial paper (secured)	**57,023**	22,079	**1.29%**	1.25%
Total short–term financing	**$ 107,023**	$ 90,079		

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 September 30, 2010, consisted of a $250 million committed revolving credit facility with U.S. Bank, N.A. Advances under this facility are secured by certain marketable securities. The unpaid principal amount of all advances under this facility will be due on December 31, 2010. The Company pays a nonrefundable commitment fee on the unused portion of the facility on a quarterly basis.

The Company's uncommitted secured lines at September 30, 2010, totaled $275 million with three 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. In addition, the Company has established arrangements to obtain financing by another broker dealer at the end of each business day related specifically to its convertible inventory.

In 2009, the Company initiated a secured commercial paper program to provide another funding source for its securities inventory. The senior secured commercial paper notes ("Series A CP Notes") are secured by the Company's securities inventory with maturities on the Series A CP Notes ranging from twenty–seven days to ninety–two days from the date of issuance. The Series A CP Notes are interest–bearing or sold at a discount to par with an interest rate based on the London Interbank Offered Rate ("LIBOR") plus an applicable margin.

As part of these short–term financing arrangements, the Company is subject to various financial and operational covenants. At September 30, 2010, the Company was in compliance with all covenants related to its financing facilities.

Note 13 *Variable Rate Senior Notes*
On December 31, 2009, the Company issued unsecured variable rate senior notes ("Notes") in the amount of $120 million. The initial holders of the Notes are certain entities advised by PIMCO. Interest is based on an annual rate equal to LIBOR plus 4.10%, adjustable and payable quarterly. The weighted average interest rate for the nine months ended September 30, 2010, was 4.46%. The proceeds from the Notes were used to fund a portion of the ARI acquisition discussed further in Note 4 to our consolidated financial statements. The unpaid principal amount of the Notes will be due on December 31, 2010.

Note 14 *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. 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.

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 are difficult to determine and of necessity subject to future revision. Subject to the foregoing, management of the Company believes, based on its current knowledge, 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 financial condition 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 in that period could be materially adversely affected.

The Company is a defendant in two potentially material legal proceedings as described below.

The U.S. Department of Justice ("DOJ"), Antitrust Division, the SEC and various state attorneys general are conducting broad investigations of numerous firms 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 have been brought on behalf of a purposed class of government entities that purchased municipal derivatives. The complaints allege antitrust violations and civil fraud and are pending in a U.S. District Court under the multi–district litigation rules. 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. An estimate of the loss, or range of loss that is reasonably possible, cannot be made at this time.

Piper Jaffray has been named as a defendant in a complaint filed in federal district court in Des Moines, Iowa on June 30, 2006. The claim arises in connection with two municipal financings completed by Union County in 1997 and 1998 aggregating approximately $6.0 million, for which Piper Jaffray acted as underwriter, and alleges breach of fiduciary duty, breach of contract, negligent misrepresentation, negligence and fraud. On September 29, 2010, Piper Jaffray's motion for summary judgment was granted in part (with respect to the breach of contract claim) and denied in part (as to the other claims). A trial is currently scheduled to commence on December 6, 2010. The Company believes that it has meritorious defenses to the action and intends to vigorously defend against it. The Company is not able to predict with certainty the outcome of this matter, nor the amount, if any, of an eventual settlement or judgment. The Company believes an estimate of the range of loss that is reasonably possible is between $0 to $6.0 million as of September 30, 2010.

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Note 15 *Restructuring*
On August 11, 2006, the Company completed the sale of its Private Client Services (“PCS”) branch network and certain related assets to UBS Financial Services, Inc., a subsidiary of UBS AG (“UBS”), thereby exiting the PCS business. In connection with the sale of the Company’s PCS branch network, the Company initiated a plan to significantly restructure the Company’s support infrastructure. All restructuring costs related to the sale of the PCS branch network were included within discontinued operations. The following table presents a summary of activity with respect to the restructuring−related liabilities included in other liabilities and accrued expenses on the consolidated statements of financial condition related to the sale of the PCS branch network:

(Dollars in thousands)	**PCS Restructuring**
Balance at December 31, 2009	**$ 7,565**
Recovery of provision charged to operations	(118)
Cash outlays	(2,019)
Non−cash write−downs	(17)
Balance at September 30, 2010	**$ 5,411**

In the third quarter of 2010, the Company incurred pre−tax restructuring−related expenses of $1.3 million. The expense resulted from headcount reductions in the Capital Markets segment, the majority of which were related to its European operations.
In October 2010, the Company announced plans to restructure its European operations. See Note 23 for further discussion.
Note 16 *Shareholders’ Equity*
Share Repurchase Program
In the second quarter of 2008, the Company’s board of directors authorized the repurchase of up to $100 million in common shares through June 30, 2010. During the six months ended June 30, 2010, the Company repurchased 893,050 shares of the Company’s common stock at an average price of $33.57 per share for an aggregate purchase price of $30.0 million related to this authorization. The share repurchase authorization expired as of June 30, 2010.
In the third quarter of 2010, the Company’s board of directors authorized the repurchase of up to $75 million in common shares through September 30, 2012. During the three months ended September 30, 2010, the Company repurchased 540,532 shares of the Company’s common stock at an average price of $28.16 per share for an aggregate purchase price of $15.2 million related to this authorization. The Company has $59.8 million remaining under this authorization.
Issuance of Shares
In March 2010, the Company issued 881,846 restricted shares and 11,259 unrestricted shares in conjunction with the acquisition of ARI as described in Note 4. The restricted shares issued in conjunction with the acquisition of ARI vest ratably over four years in equal installments beginning on March 1, 2011, and ending on March 1, 2014. These restricted shares provide for continued vesting after termination, so long as the employee does not violate certain non−solicitation restrictions.
During the nine months ended September 30, 2010, the Company issued 81,696 common shares out of treasury stock in fulfillment of $3.6 million in obligations under the Piper Jaffray Companies Retirement Plan and issued 404,115 common shares out of treasury stock as a result of vesting and exercise transactions under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long−Term Incentive Plan.
Note 17 *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 common shareholders by the weighted average number of common shares outstanding for the period. Net income applicable to common shareholders represents net income reduced by the allocation of earnings to participating securities. All of the Company’s outstanding restricted shares are deemed to be participating securities because they are eligible to share in the

profits (e.g. receive dividends) of the Company. Losses are not allocated to participating securities. 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 September 30,		Nine Months Ended September 30,	
(Amounts in thousands, except per share data)	**2010**	2009	**2010**	2009
Net income	**$ 7,054**	$ 9,266	**$ 14,942**	$ 18,117
Earnings allocated to participating securities (2)	**(1,639)**	(1,690)	**(3,271)**	(3,254)
Net income applicable to common shareholders (1)	**$ 5,415**	$ 7,576	**$ 11,671**	$ 14,863
Shares for basic and diluted calculations:				
Average shares used in basic computation	**15,035**	16,031	**15,588**	16,001
Stock options	**3**	100	**38**	38
Restricted stock (2)	**–**	–	**–**	–
Average shares used in diluted computation	**15,038**	16,131	**15,626**	16,039
Earnings per share:				
Basic	**$ 0.36**	$ 0.47	**$ 0.75**	$ 0.93
Diluted	**$ 0.36**	$ 0.47	**$ 0.75**	$ 0.93

(1) Net income applicable to 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 common shareholders and participating securities for purposes of calculating diluted and basic EPS.

(2) Participating securities were included in the calculation of diluted EPS using the two–class method, as this computation was more dilutive than the calculation using the treasury–stock method.

The anti–dilutive effects from stock options were immaterial for the periods ended September 30, 2010 and 2009.

Note 18 *Employee Benefit Plans*

Certain employees participated in the Piper Jaffray Companies Non–Qualified Retirement Plan (“the Non–Qualified Plan”), an unfunded, non–qualified cash balance pension plan. The Company froze the plan effective January 1, 2004, thereby eliminating future benefits related to pay increases and excluding new participants from the plan. Effective December 31, 2009, the Company resolved to terminate the Non–Qualified Plan through lump sum cash distributions to all participants. These lump–sum cash payments, totaling $10.4 million, were based on the December 31, 2009 actuarial valuation of the Non–Qualified Plan and were distributed on March 15, 2010. In 2010, the Company recognized settlement expense of $0.2 million in compensation and benefits expense on the consolidated statement of operations related to the settlement of all Non–Qualified Plan liabilities.

Note 19 *Stock–Based Compensation*

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 in the statements of operations at grant date fair value over the service period of the award, net of estimated forfeitures.

The Company’s primary stock–based compensation plan, Piper Jaffray Companies Amended and Restated 2003 Annual and Long–Term Incentive Plan, (the “Incentive Plan”), permits the grant of equity awards, including restricted stock and non–qualified stock options, to the Company’s employees and directors for up to 7.0 million shares of common stock. The Company periodically grants shares of restricted stock to employees and grants shares of Piper Jaffray Companies common stock to its non–employee directors. The Company also previously granted options to purchase Piper Jaffray Companies common stock to employees and non–employee directors. 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 awards granted to employees under the Incentive Plan have the following vesting periods: approximately 79 percent of the awards have three–year cliff vesting periods, approximately 11 percent of the awards vest ratably from 2011 through 2013 on the annual grant date anniversary, and approximately 10 percent of the awards cliff vest upon meeting a specific performance–based metric prior to May 2013. The director awards are fully vested upon grant. The plan provides for accelerated vesting of option and restricted stock awards if there is a change in control of the Company (as defined in the plan), in the event of a participant’s death, and at the discretion of the compensation committee of the Company’s board of directors.

Employee and director stock 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. The maximum term of the stock options granted to employees and directors is ten years. The Company has not granted stock options since 2008.

Restricted stock grants are valued at the market price of the Company's common stock on the date of grant. Restricted stock grants are amortized over the service period. The majority of the Company's restricted stock grants provide for continued vesting after termination, so long as the employee does not violate certain 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 restricted stock grants are fully expensed in the period in which those awards are deemed to be earned, which is generally the calendar year preceding the February grant date each year. For example, the Company recognized compensation expense during fiscal 2009 for its annual February 2010 restricted stock grants.

In accordance with ASC 718, if any equity award 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 other income. The Company recorded $0.7 million and $4.5 million of forfeitures through other income for the three and nine months ended September 30, 2010, respectively. The amount the Company recorded to other income from cancellations for the three and nine months ended September 30, 2009 were not significant.

Performance−based restricted stock awards granted in 2008 and 2009 were valued at the market price of the Company's common stock on the date of grant. The restricted shares 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 condition 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. In the third quarter of 2010, the Company deemed it improbable that the performance condition related to the performance−based restricted stock grants would be met. As a result, the Company recorded a $6.6 million cumulative effect compensation expense reversal in the third quarter of 2010.

In 2010, the Company established the 2010 Employment Inducement Award Plan (the "Inducement Plan") in conjunction with the acquisition of ARI. The Company granted $7.0 million (158,801 shares) in restricted shares under the Inducement Plan to ARI employees upon closing of the transaction. These shares vest ratably over five years in equal installments beginning on March 1, 2011, and ending on March 1, 2015. The Company records compensation expense for this $7.0 million restricted stock grant on a pro rata basis over the five year vesting period. Unvested shares granted under the Inducement Plan are cancelled upon the termination of employment by the award recipient.

The Company recorded compensation expense of $0.8 million and $11.6 million for the three months ended September 30, 2010 and 2009, respectively, and $20.0 million and $31.4 million for the nine months ended September 30, 2010 and 2009, respectively, related to employee restricted stock. The three and nine months ended September 30, 2010 included the $6.6 million cumulative effect adjustment discussed above related to the performance−based restricted stock awards. The tax benefit related to the total compensation cost for stock−based compensation arrangements totaled $0.3 million and $4.5 million for the three months ended September 30, 2010 and 2009, respectively, and $7.9 million and $12.2 million for the nine months ended September 30, 2010 and 2009, respectively.

The following table summarizes the changes in the Company's non−vested restricted stock for the nine months ended September 30, 2010:

	Non−Vested Restricted Stock	Weighted Average Grant Date Fair Value
December 31, 2009	**3,512,749**	**$ 40.46**
Granted	1,904,618	41.90
Vested	(633,236)	64.75
Cancelled	(258,422)	38.08
September 30, 2010	**4,525,709**	**$ 38.39**

As of September 30, 2010, there was $21.4 million of total unrecognized compensation cost related to restricted stock expected to be recognized over a weighted average period of 2.64 years.

The following table summarizes the changes in the Company's outstanding stock options for the nine months ended September 30, 2010:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
December 31, 2009	**538,804**	**$ 44.50**	**5.7**	**$ 4,237,480**
Granted	–	–		
Exercised	(2,456)	40.06		
Cancelled	(15,370)	42.14		
September 30, 2010	**520,978**	**$ 44.60**	**5.1**	**$ 25,594**
Options exercisable at September 30, 2010	**404,314**	**$ 45.62**	**4.4**	**$ 25,594**

As of September 30, 2010, there was no unrecognized compensation cost related to stock options expected to be recognized over future years.

Cash received from option exercises for the nine months ended September 30, 2010 was $0.1 million. The tax benefit realized for the tax deduction from option exercises was immaterial for the nine months ended September 30, 2010. Cash received from option exercises for the nine months ended September 30, 2009 was $1.0 million. The tax deduction from option exercises totaled $0.4 million for the nine months ended September 30, 2009.

Note 20 *Segment Reporting*

On March 1, 2010, the Company completed the purchase of ARI, which expanded the Company's asset management business and resulted in a change to its reportable business segments. In connection with this change, the Company has reclassified prior period segment results to conform to the current period presentation.

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. It 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, based on 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.

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Reportable segment financial results are as follows:

(Dollars in thousands)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Capital Markets				
Investment banking				
Financing				
Equities	**$ 19,839**	$ 17,769	**$ 71,603**	$ 45,126
Debt	**16,486**	20,493	**46,022**	53,007
Advisory services	**20,595**	10,138	**55,767**	38,527
Total investment banking	**56,920**	48,400	**173,392**	136,660
Institutional sales and trading				
Equities	**24,292**	31,438	**78,720**	92,484
Fixed income	**20,159**	32,101	**57,268**	95,072
Total institutional sales and trading	**44,451**	63,539	**135,988**	187,556
Other income/(loss)	**(1,956)**	3,954	**2,452**	1,644
Net revenues	**99,415**	115,893	**311,832**	325,860
Operating expenses (1)	**90,136**	99,794	**286,276**	285,247
Segment pre−tax operating income	**$ 9,279**	$ 16,099	**$ 25,556**	$ 40,613
Segment pre−tax operating margin	**9.3%**	13.9%	**8.2%**	12.5%
Asset Management				
Management and performance fees	**$ 16,812**	$ 3,568	**$ 41,839**	$ 9,817
Other income/(loss)	**236**	208	**31**	164
Net revenues	**17,048**	3,776	**41,870**	9,981
Operating expenses (1)	**12,749**	4,293	**32,857**	13,050
Segment pre−tax operating income/(loss)	**$ 4,299**	$ (517)	**$ 9,013**	$ (3,069)
Segment pre−tax operating margin	**25.2%**	N/M	**21.5%**	N/M
Total				
Net revenues	**$ 116,463**	$ 119,669	**$ 353,702**	$ 335,841
Operating expenses (1)	**102,885**	104,087	**319,133**	298,297
Total segment pre−tax operating income	**$ 13,578**	$ 15,582	**$ 34,569**	$ 37,544
Pre−tax operating margin	**11.7%**	13.0%	**9.8%**	11.2%

N/M – Not meaningful

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

(Dollars in thousands)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Capital Markets	**$ –**	$ –	**$ –**	$ –
Asset Management	**2,183**	614	5,363	1,842
Total amortization	**$ 2,183**	$ 614	**$ 5,363**	$ 1,842

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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 net investment banking revenues allocated to geographic locations based upon the location of the client and investment banking team and net institutional sales and trading revenues allocated based upon the location of the client.

(Dollars in thousands)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Net revenues:				
United States	**$ 103,551**	$ 111,551	**$ 309,660**	$ 313,162
Asia	**6,426**	3,258	**23,943**	10,178
Europe	**6,486**	4,860	**20,099**	12,501
Consolidated	**$ 116,463**	$ 119,669	**$ 353,702**	$ 335,841

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

(Dollars in thousands)	**September 30, 2010**	December 31, 2009
Long–lived assets:		
United States	**$ 450,956**	$ 260,439
Asia	**14,202**	11,943
Europe	**631**	965
Consolidated	**$ 465,789**	$ 273,347

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 self regulatory organizations ("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, approval and other provisions of the SEC and FINRA rules. In addition, Piper Jaffray is subject to certain approval requirements related to withdrawals of excess net capital.

At September 30, 2010, net capital calculated under the SEC rule was $211.4 million, and exceeded the minimum net capital required under the SEC rule by $210.2 million.

Piper Jaffray Ltd., which is a registered United Kingdom broker dealer, is subject to the capital requirements of the U.K. Financial Services Authority ("FSA"). As of September 30, 2010, Piper Jaffray Ltd. was in compliance with the capital requirements of the FSA.

Piper Jaffray Asia Holdings Limited operates three 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 September 30, 2010, Piper Jaffray Asia regulated entities were in compliance with the liquid capital requirements of the Hong Kong Securities and Futures Ordinance.

Note 22 *Income Taxes*

The Company's effective income tax rate for the nine months ended September 30, 2010 was 56.8%, compared to 51.7% for the nine months ended September 30, 2009. The effective tax rate for the nine months ended September 30, 2010 was high because the Company did not record a tax benefit related to its U.K. subsidiary net operating loss carry forward deductions and due to a $5.6 million write–off of a deferred tax asset resulting from restricted stock grants that vested at share prices lower than the grant date share price. The provision for income taxes for the nine months ended September 30, 2009 was high compared to pre–tax income because

the Company did not record a tax benefit related to its U.K. subsidiary net operating loss carry forward deductions and incurred approximately $3.0 million of one–time tax expense items.

Note 23 *Subsequent Event*

On October 20, 2010, the Company announced plans to restructure its European operations to focus European resources on two areas: the distribution of U.S. and Asia securities to European institutional investors and merger and acquisition advisory services. As a result of the restructuring, the Company will exit the origination and distribution of European securities and expects to incur restructuring charges estimated to be between $7.5 to $9.0 million, which will be principally recorded in the fourth quarter of 2010. The Company expects to complete the transition by December 31, 2010. For more information, see the Company's Form 8–K filed on October 20, 2010.

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

The following information should be read in conjunction with the accompanying unaudited consolidated financial statements and related notes and exhibits included elsewhere in this report. Certain statements in this report may be considered forward−looking. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward−looking statements. These forward looking statements include, among other things, statements other than historical information or statements of current condition and may relate to our future plans and objectives and results, and also may include our belief regarding the effect of various legal proceedings, as set forth under "Legal Proceedings" in Part I, Item 3 of our Annual Report on Form 10−K for the year ended December 31, 2009 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, 2009, 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 business principally consists of providing investment banking, institutional brokerage, asset management and related financial services to corporations, private equity groups, public entities, non profit entities and institutional investors in the United States, Europe and Asia. 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, profits and losses from trading these securities and strategic trading opportunities. 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.

Asset Management – The Asset Management segment provides asset management services with product offerings in equity and fixed income securities and private equity investments to institutions and high net worth individuals through proprietary distribution channels. It generates revenues in the form of management and performance fees. The majority of our performance fees, if earned, are recognized in the fourth quarter. As part of our growth strategy, we expanded our asset management business through the acquisition of Advisory Research Holdings, Inc. ("ARI"), a Chicago−based asset management firm. The transaction closed on March 1, 2010. For more information on our acquisition of ARI, see Note 4 of the accompanying unaudited consolidated financial statements included in this report.

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 and nine months ended September 30, 2010

For the three months ended September 30, 2010, we recorded net income of $7.1 million, or $0.36 per diluted common share, compared with net income of $9.3 million, or $0.47 per diluted common share for the corresponding period in the prior year. Net revenues for the third quarter of 2010 were $116.5 million, down 2.7 percent from the year−ago period. Increased revenues associated with advisory services and our asset management business, driven by results from our acquisition of ARI, were offset by lower institutional brokerage revenues. For the third quarter of 2010, non−interest expense decreased slightly to $102.9 million when compared to the prior−year period. Increased non−compensation expenses related primarily to the ARI acquisition, including intangible asset amortization, were more than offset by a decline in compensation expenses. In the third quarter of 2010, we recorded a reduction in compensation expense of $6.6 million for a reversal of previously recognized compensation expense related to a performance−based restricted stock award.

For the nine months ended September 30, 2010, net income was $14.9 million, or $0.75 per diluted common share, compared with net income of $18.1 million for the prior−year period, or $0.93 per diluted common share. Net revenues for the first nine months of 2010 increased 5.3 percent to $353.7 million, as compared to the first nine months of 2009, driven by higher equity financing and advisory services revenues and increased asset management revenues, partially offset by lower institutional brokerage revenues. For the nine months−ended September 30, 2010, non−interest expense increased 7.0 percent to $319.1 million, compared with the corresponding period in the prior year. This increase resulted from the acquisition of ARI and increased business activity.

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 capital markets business within the financial services industry also may 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. Further, we may not participate or may participate to a lesser degree than other firms in sectors that experience significant activity, and our operating results may not correlate with the results of other firms who participate in these sectors. 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 light of recent conditions in the global financial markets and the global economy, legislators and regulators have increased their focus on the regulation of the financial services industry. This increased focus has resulted in the Dodd−Frank Wall Street Reform and Consumer Protection Act ("Dodd−Frank"), which was signed into law during the third quarter. Dodd−Frank will significantly restructure and intensify regulation in the financial services industry, which could increase our cost of doing business (or alter certain business practices) and change the competitive landscape, potentially substantially.

Outlook for the remainder of 2010

In the third quarter of 2010, lower equity financing revenues when compared to the second quarter of 2010, reflected reduced industry−wide activity in growth company IPOs, while advisory services revenues continued their solid trend and municipal financing revenues were at the highest level year−to−date. We will need constructive capital markets to realize revenues from our backlogs, which continue to be strong across all investment banking businesses. Fixed income institutional brokerage revenues rebounded from the challenging second quarter of 2010. Even though performance improved, we anticipate that the recent market volatility in the fixed income markets will continue during the remainder of 2010, and will negatively impact our fourth quarter of 2010 municipal institutional brokerage revenues. We also experienced reduced equity trading volumes resulting in lower equity institutional brokerage revenues and expect this industry−wide trend to continue through the end of the year. The acquisition of ARI has added scale to our asset management business, provided a more stable revenue stream and a platform to support future organic growth.

Restructuring of European Operations

On October 20, 2010, we announced plans to restructure our European operations to focus European resources on two areas: the distribution of U.S. and Asia securities to European institutional investors and merger and acquisition advisory services. As a result of the restructuring, we will exit the origination and distribution of European securities and expect to incur a restructuring charge that is estimated to be between $8.3 to $9.8 million, the majority of which will be recorded in the fourth quarter of 2010. A total of $0.8 million of the restructuring charge was recorded in the third quarter of 2010. We estimate that the restructuring charge will include approximately (i) $6.2 to $7.0 million in severance benefits, (ii) $1.1 to $1.3 million related to the reduction of leased office space, and (iii) $1.0 to $1.5 million related to contract termination costs. We expect to complete the transition by December 31, 2010.

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Results of Operations

Financial Summary for the Three Months Ended September 30, 2010 and September 30, 2009

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.

	Three Months Ended September 30,			As a Percentage of Net Revenues For the Three Months Ended September 30,	
(Dollars in thousands)	**2010**	2009	2010 v2009	**2010**	2009
Revenues:					
Investment banking	**$ 56,243**	$ 48,115	16.9 %	**48.3** %	40.2 %
Institutional brokerage	**40,432**	59,576	(32.1)	**34.7**	49.8
Interest	**11,497**	11,854	(3.0)	**9.9**	9.9
Asset management	**16,812**	3,568	371.2	**14.4**	3.0
Other income/(loss)	**(368)**	3,340	N/M	**(0.3)**	2.8
Total revenues	**124,616**	126,453	(1.5)	**107.0**	105.7
Interest expense	**8,153**	6,784	20.2	**7.0**	5.7
Net revenues	**116,463**	119,669	(2.7)	**100.0**	100.0
Non–interest expenses:					
Compensation and benefits	**66,058**	71,802	(8.0)	**56.7**	60.0
Occupancy and equipment	**8,853**	7,703	14.9	**7.6**	6.4
Communications	**5,943**	5,474	8.6	**5.1**	4.6
Floor brokerage and clearance	**2,879**	2,974	(3.2)	**2.5**	2.5
Marketing and business development	**5,863**	5,498	6.6	**5.0**	4.6
Outside services	**7,945**	6,234	27.4	**6.8**	5.2
Restructuring–related expenses	**1,333**	–	N/M	**1.1**	–
Other operating expenses	**4,011**	4,402	(8.9)	**3.5**	3.7
Total non–interest expenses	**102,885**	104,087	(1.2)	**88.3**	87.0
Income before income tax expense	**13,578**	15,582	(12.9)	**11.7**	13.0
Income tax expense	**6,524**	6,316	3.3	**5.6**	5.3
Net income	**$ 7,054**	$ 9,266	(23.9) %	**6.1** %	7.7 %

N/M – Not meaningful

For the three months ended September 30, 2010, we recorded net income of $7.1 million. Net revenues for the three months ended September 30, 2010 were $116.5 million, a 2.7 percent decrease from the year–ago period. For the third quarter of 2010, investment banking revenues increased 16.9 percent to $56.2 million, compared with revenues of $48.1 million in the prior–year period. The increase in investment banking revenues was attributable to higher equity financing revenues as well as increased advisory services revenues. In the third quarter of 2010, institutional brokerage revenues decreased 32.1 percent to $40.4 million, compared with $59.6 million in the corresponding period in the prior year, due to reduced equity and fixed income institutional brokerage revenues. In the third quarter of 2010, net interest income decreased to $3.3 million, compared with $5.1 million in the third quarter of 2009. The decrease was primarily the result of interest expense on the $120 million of variable rate senior notes issued December 31, 2009, to

finance a portion of the ARI acquisition. For the three months ended September 30, 2010, asset management fees were $16.8 million, compared with $3.6 million in the prior–year period. The increased revenues were driven by the results for ARI, which we acquired on March 1, 2010. In the third quarter of 2010, other income decreased to a loss of $0.4 million, compared with income of $3.3 million in the prior–year period, due to gains recorded on our firm investments in the third quarter of 2009. Non–interest expenses decreased slightly to $102.9 million for the three months ended September 30, 2010, from $104.1 million in the corresponding period in the prior year.

Consolidated Non–Interest Expenses

Compensation and Benefits – Compensation and benefits expenses, which are the largest component of our expenses, include salaries, incentive compensation, benefits, stock–based compensation, employment taxes 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, have a greater impact on our cash position and liquidity, than is reflected in our statements of operations.

For the three months ended September 30, 2010, compensation and benefits expenses decreased 8.0 percent to $66.1 million from $71.8 million in the corresponding period in 2009. Compensation and benefits expenses as a percentage of net revenues were 56.7 percent for the third quarter of 2010, compared with 60.0 percent for the third quarter of 2009. The third quarter of 2010 included a $6.6 million reversal of previously recognized compensation expense related to a performance–based restricted stock award granted to our leadership team in 2008 and 2009. This reversal reduced compensation and benefits expenses as a percentage of net revenues by 5.6 percentage points. The terms of the award require us to achieve an 11 percent return on adjusted equity over a 12–month time period by May 2013 to vest in its entirety. Given our current financial performance and the lagging pace of the economy, management determined that it is not probable that we will achieve this target. Therefore, $6.6 million of previously recognized compensation expense was reversed in the current period.

Occupancy and Equipment — In the third quarter of 2010, occupancy and equipment expenses were $8.9 million, compared with $7.7 million for the corresponding period in 2009. The increase was attributable to additional occupancy expense from our acquisition of ARI as well as incremental occupancy costs as we transition to new office space in New York City and Hong Kong.

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 September 30, 2010, communications expenses were $5.9 million, compared with $5.5 million for the prior–year period. The increase was due to higher market data service expenses.

Floor Brokerage and Clearance — For the three months ended September 30, 2010, floor brokerage and clearance expenses were $2.9 million, essentially flat compared with the three months ended September 30, 2009.

Marketing and Business Development — In the third quarter of 2010, marketing and business development expenses increased to $5.9 million, compared with $5.5 million in the third quarter of 2009. This increase was driven by higher travel costs associated with increased investment banking activities and incremental expense from the acquisition of ARI.

Outside Services — Outside services expenses include securities processing expenses, outsourced technology functions, outside legal fees and other professional fees. Outside services expenses increased to $7.9 million in the third quarter of 2010, compared with $6.2 million for the prior–year period, due primarily to increased legal fees and additional costs from our acquisition of ARI.

Restructuring–Related Expense — During the third quarter of 2010, we recorded a pre–tax restructuring charge of $1.3 million related to headcount reductions in the Capital Markets segment, the majority of which were related to our European operations. As discussed in "Outlook for the remainder of 2010," on October 20, 2010 we announced plans to restructure our European operations. As a result of the restructuring, we expect to incur a charge of $7.5 to $9.0 million in the fourth quarter of 2010.

Other Operating Expenses — Other operating expenses include insurance costs, amortization of intangible assets, license and registration fees, and 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. In the third quarter of 2010, other operating expenses decreased to $4.0 million, compared with $4.4 million in the third quarter of 2009. This decrease was primarily due to a decline in litigation–related

expenses and charitable contributions, where giving levels are directly associated with our pre−tax income. This decline was offset in part by the increased intangible asset amortization expense related to the acquisition of ARI.

Income Taxes — For the three months ended September 30, 2010, our provision for income taxes was $6.5 million, equating to an effective tax rate of 48.0 percent. For the three months ended September 30, 2009, our provision for income taxes was $6.3 million, equating to an effective tax rate of 40.5 percent. Our elevated effective tax rate in the third quarter of 2010 is principally due to net operating losses in the U.K. We maintain a 100 percent valuation allowance against our U.K.−based deferred tax assets. Therefore, we do not recognize a tax benefit from U.K. net operating losses. Based upon anticipated U.K. restructuring charges in the fourth quarter of 2010, we expect a significantly higher effective tax rate in the fourth quarter.

Segment Performance

We measure financial performance by business segment. Our two reportable segments are Capital Markets and Asset Management. We determined these segments based upon the nature of the financial products and services provided to customers and the Company's management organization. Segment pre−tax operating income or loss 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 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, 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 September 30,		
(Dollars in thousands)	**2010**	2009	2010 v2009
Net revenues			
Capital Markets	**$ 99,415**	$ 115,893	(14.2) %
Asset Management	**17,048**	3,776	351.5
Total net revenues	**$ 116,463**	$ 119,669	(2.7) %
Pre−tax operating income/(loss)			
Capital Markets	**$ 9,279**	$ 16,099	(42.4) %
Asset Management	**4,299**	(517)	N/M
Total pre−tax operating income/(loss)	**$ 13,578**	$ 15,582	(12.9) %
Pre−tax operating margin			
Capital Markets	**9.3** %	13.9 %	
Asset Management	**25.2** %	N/M	
Total pre−tax operating margin	**11.7** %	13.0 %	

N/M − Not meaningful

Capital Markets

	Three Months Ended September 30,		
	2010	2009	2010 v2009
(Dollars in thousands)			
Net revenues:			
Investment banking			
Financing			
Equities	**$ 19,839**	$ 17,769	11.6 %
Debt	**16,486**	20,493	(19.6)
Advisory services	**20,595**	10,138	103.1
Total investment banking	**56,920**	48,400	17.6
Institutional sales and trading			
Equities	**24,292**	31,438	(22.7)
Fixed income	**20,159**	32,101	(37.2)
Total institutional sales and trading	**44,451**	63,539	(30.0)
Other income/(loss)	**(1,956)**	3,954	N/M
Total net revenues	**$ 99,415**	$ 115,893	(14.2) %
Pre−tax operating income	**$ 9,279**	$ 16,099	(42.4) %
Pre−tax operating margin	**9.3 %**	13.9 %	

N/M − Not meaningful

Capital Markets net revenues decreased 14.2 percent to $99.4 million in the third quarter of 2010, compared with $115.9 million in the prior−year period, primarily driven by a decrease in institutional sales and trading revenues offset in part by higher investment banking revenues.

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

Investment banking revenues increased 17.6 percent to $56.9 million in the third quarter of 2010, compared with $48.4 million for the corresponding period in 2009, primarily driven by both increased equity financing revenues and advisory services revenues. For the three months ended September 30, 2010, equity financing revenues increased to $19.8 million, compared with $17.8 million in the prior−year period, resulting from increased revenues from Asia financings. During the third quarter of 2010, we completed 17 equity financings, raising $2.6 billion in capital for our clients, compared with 16 equity financings, raising $3.0 billion for the corresponding period in 2009. Debt financing revenues in the third quarter of 2010 decreased 19.6 percent to $16.5 million, compared with $20.5 million in the third quarter of 2009, resulting from a decline in the par value of completed transactions and lower revenue per transaction as we completed 161 public finance issues with a total par value of $2.1 billion in the third quarter of 2010, compared with 150 public finance issues with a total par value of $2.4 billion during the prior−year period. For the three months ended September 30, 2010, advisory services revenues increased 103.1 percent to $20.6 million due to a higher aggregate value of completed transactions and higher revenue per transaction. We completed 9 transactions with an aggregate enterprise value of $1.5 billion during the third quarter of 2010, compared with 6 transactions with an aggregate enterprise value of $0.5 billion in the third quarter of 2009.

Institutional sales and trading revenues comprise all the revenues generated through trading activities, which consist primarily of facilitating customer trades. 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 September 30, 2010, institutional brokerage revenues declined 30.0 percent to $44.5 million, compared with $63.5 million in the prior−year period, driven by both lower equity and fixed income institutional brokerage revenues. Equity institutional brokerage revenues decreased to $24.3 million in the third quarter of 2010, compared with $31.4 million in the prior period in 2009, mainly due to lower client volumes in U.S. equities, which was an industry−wide trend. Fixed income institutional brokerage revenues were $20.2 million in the third quarter of 2010, compared with $32.1 million in the prior−year, down from the robust performance in the third quarter of 2009 when we experienced a very favorable fixed income trading environment. Additionally, in the third quarter of 2010, investor concerns over credit risk continued, which led to wider credit spreads and lower client activity in municipal products and reduced trading performance across products. We anticipate that municipal institutional brokerage revenues will continue to be negatively impacted during the remainder of 2010 by interest rate and credit risks.

Other income/loss includes gains and losses from our merchant banking activities, other firm investments, income associated with the forfeiture of stock−based compensation and interest expense related to firm funding. In the third quarter of 2010, other income was a loss of $2.0 million, compared with $4.0 million of income in the prior−year period as a result of increased interest expense related to firm funding in the third quarter of 2010 and gains related to our firm investments recognized in the third quarter of 2009.

Segment pre−tax operating margin for the third quarter of 2010 decreased to 9.3 percent from 13.9 percent for the corresponding period in the prior year. In the third quarter of 2010, we experienced a shift in business with investment banking contributing a higher percentage of revenues and fixed income institutional sales and trading contributing a lower percentage. Investment banking activities generally have a higher level of compensation than fixed income institutional sales and trading. This, along with a decline in net revenues, drove the decline in our segment pre−tax operating margin. If this mix of business continues, we anticipate continued pressure on our Capital Markets segment pre−tax operating margin.

Asset Management	Three Months Ended September 30,		
	2010	2009	2010 v2009
(Dollars in thousands)			
Net revenues:			
Management and performance fees	**$ 16,812**	$ 3,568	371.2 %
Other income/(loss)	**236**	208	13.5
Net revenues	**$ 17,048**	$ 3,776	351.5 %
Pre−tax operating income/(loss)	**$ 4,299**	$ (517)	N/M
Pre−tax operating margin	**25.2** %	N/M	

N/M − Not meaningful

Asset management revenues comprise all the revenues generated through management and investment advisory services performed for various funds and separately managed accounts. Asset management revenues increased 351.5 percent to $17.0 million in the third quarter of 2010, compared with $3.8 million for the corresponding period in 2009, due to the acquisition of ARI completed on March 1, 2010.

Other income/loss includes gains and losses from our investments in funds and partnerships. Other income/loss was a gain of $236,000 in the third quarter of 2010, which was essentially flat compared with a gain of $208,000 in the third quarter of 2009.

Segment pre−tax operating margin for the third quarter of 2010 was 25.2 percent, compared to a negative margin for the corresponding period in the prior year.

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The following table summarizes the changes in our assets under management for the three months ended September 30, 2010:

(Dollars in millions)		
Assets under management:		
Balance at June 30, 2010:	**$**	**11,847**
Net inflows/(outflows)		(5)
Net market appreciation/(depreciation)		909
Balance at September 30, 2010:	**$**	**12,751**

Assets under management increased $0.9 billion to $12.8 billion in the third quarter of 2010. The increase resulted primarily from market appreciation of the underlying assets in the funds due to an increase in equity prices during the quarter.

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Financial Summary for the Nine Months Ended September 30, 2010 and September 30, 2009

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.

	Nine Months Ended September 30,			As a Percentage of Net Revenues For the Nine Months Ended September 30,	
(Dollars in thousands)	**2010**	2009	2010 v2009	**2010**	2009
Revenues:					
Investment banking	**$ 171,736**	$ 134,615	27.6 %	**48.5** %	40.1 %
Institutional brokerage	**121,611**	175,455	(30.7)	**34.4**	52.3
Interest	**39,259**	29,024	35.3	**11.1**	8.6
Asset management	**41,839**	9,817	326.2	**11.8**	2.9
Other income/(loss)	**6,054**	(1,209)	N/M	**1.8**	(0.4)
Total revenues	**380,499**	347,702	9.4	**107.6**	103.5
Interest expense	**26,797**	11,861	125.9	**7.6**	3.5
Net revenues	**353,702**	335,841	5.3	**100.0**	100.0
Non–interest expenses:					
Compensation and benefits	**208,832**	201,503	3.6	**59.0**	60.0
Occupancy and equipment	**24,578**	21,901	12.2	**6.9**	6.5
Communications	**18,631**	17,003	9.6	**5.2**	5.0
Floor brokerage and clearance	**8,803**	9,088	(3.1)	**2.5**	2.7
Marketing and business development	**17,280**	13,362	29.3	**4.9**	4.0
Outside services	**23,684**	21,168	11.9	**6.7**	6.3
Restructuring–related expenses	**1,333**	3,572	(62.7)	**0.4**	1.1
Other operating expenses	**15,992**	10,700	49.5	**4.6**	3.2
Total non–interest expenses	**319,133**	298,297	7.0	**90.2**	88.8
Income before income tax expense	**34,569**	37,544	(7.9)	**9.8**	11.2
Income tax expense	**19,627**	19,427	1.0	**5.6**	5.8
Net income	**$ 14,942**	$ 18,117	(17.5) %	**4.2** %	5.4 %

N/M – Not meaningful

Except as discussed below, the description of non–interest expense and net revenues as well as the underlying reasons for variances to prior year are substantially the same as the comparative quarterly discussion.

For the nine months ended September 30, 2010, net income totaled $14.9 million, compared with $18.1 million in the corresponding period in 2009. Net revenues were $353.7 million for the nine months ended September 30, 2010, an increase of 5.3 percent from the year–ago period. For the nine months ended September 30, 2010, investment banking revenues increased 27.6 percent to $171.7 million, compared with revenues of $134.6 million for the first nine months of 2009 driven by increased equity financing revenues. Institutional brokerage revenues decreased 30.7 percent to $121.6 million, compared with revenues of $175.5 million in the prior–year period due to a decline in both equity and fixed income brokerage revenues. Net interest income for the first nine months of 2010

decreased to $12.5 million, down from $17.2 million for the first nine months of 2009. The decrease was primarily the result of interest expense on the $120 million of variable rate senior notes issued December 31, 2009 to finance a portion of the ARI acquisition. For the first nine months of 2010, asset management fees were $41.8 million, compared with $9.8 million in the prior−year period. The increased revenues were attributed to the results for ARI, which we acquired on March 1, 2010. Other income for the nine months ended September 30, 2010 was $6.1 million, compared with a loss of $1.2 million for the corresponding period in 2009. The change in other income is attributable to gains recorded on our firm investments and higher income associated with the forfeitures of stock−based compensation. Non−interest expenses increased to $319.1 million for the nine months ended September 30, 2010, from $298.3 million in the corresponding period in the prior year.

Consolidated Non−Interest Expenses

Compensation and Benefits – For the nine months ended September 30, 2010, compensation and benefits expenses increased 3.6 percent to $208.8 million from $201.5 million in the corresponding period in 2009. This increase was due to additional compensation expense from the acquisition of ARI, offset by the $6.6 million reversal of compensation expense associated with a performance−based restricted stock award granted to our leadership team. Compensation and benefits expenses as a percentage of net revenues were 59.0 percent for the first nine months of 2010, compared with 60.0 percent for the first nine months of 2009. The $6.6 million reversal of previously recognized compensation expense reduced compensation and benefits expenses as a percentage of net revenues by 1.9 percentage points.

Restructuring−Related Expenses – For the nine months ended September 30, 2010, we recorded a pre−tax restructuring charge of $1.3 million related to headcount reductions in the Capital Markets segment, the majority of which were related to our European operations. For the nine months ended September 30, 2009, we recorded a pre−tax restructuring charge of $3.6 million, primarily consisting of employee severance costs and charges related to leased office space. As discussed in our "Outlook for the remainder of 2010," on October 20, 2010 we announced plans to restructure our European operations. As a result of the restructuring, we expect to incur a charge of $7.5 to $9.0 million in the fourth quarter of 2010.

Other Operating Expenses – For the nine months ended September 30, 2010, other operating expenses increased to $16.0 million, compared with $10.7 million for the corresponding period in 2009. This increase was primarily due to increased litigation−related expenses and intangible asset amortization expense related to the acquisition of ARI.

Income Taxes – For the nine months ended September 30, 2010, our provision for income taxes was $19.6 million, equating to an effective tax rate of 56.8 percent. For the nine months ended September 30, 2009, our provision for income taxes was $19.4 million, equating to an effective tax rate of 51.7 percent. The provision for income taxes for the nine months ended September 30, 2010 was high because we did not record a tax benefit related to U.K. subsidiary net operating loss carry forward deductions and due to a $5.6 million write−off of a deferred tax asset resulting from restricted stock grants that vested at share prices lower than the grant date share price. The effective tax rate of 51.7 percent for the first nine months of 2009 included approximately $3.0 million of one−time items that increased tax expense.

Segment Performance

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

	Nine Months Ended September 30, 2010	2009	2010 v2009
(Dollars in thousands)			
Net revenues			
Capital Markets	**$ 311,832**	$ 325,860	(4.3) %
Asset Management	**41,870**	9,981	319.5
Total net revenues	**$ 353,702**	$ 335,841	5.3
Pre–tax operating income/(loss)			
Capital Markets	**$ 25,556**	$ 40,613	(37.1)
Asset Management	**9,013**	(3,069)	N/M
Total pre–tax operating income/(loss)	**$ 34,569**	$ 37,544	(7.9) %
Pre–tax operating margin			
Capital Markets	**8.2 %**	12.5 %	
Asset Management	**21.5 %**	N/M	
Total pre–tax operating margin	**9.8 %**	11.2 %	

N/M – Not meaningful

Capital Markets	Nine Months Ended September 30, 2010	2009	2010 v2009
(Dollars in thousands)			
Net revenues:			
Investment banking			
Financing			
Equities	**$ 71,603**	$ 45,126	58.7 %
Debt	**46,022**	53,007	(13.2)
Advisory services	**55,767**	38,527	44.7 %
Total investment banking	**173,392**	136,660	26.9
Institutional sales and trading			
Equities	**78,720**	92,484	(14.9)
Fixed income	**57,268**	95,072	(39.8)
Total institutional sales and trading	**135,988**	187,556	(27.5)
Other income/(loss)	**2,452**	1,644	49.1
Total net revenues	**$ 311,832**	$ 325,860	(4.3) %
Pre–tax operating income	**$ 25,556**	$ 40,613	(37.1) %
Pre–tax operating margin	**8.2 %**	12.5 %	

N/M – Not meaningful

Capital Markets net revenues of $311.8 million for the nine months ended September 30, 2010 decreased 4.3 percent compared with net revenues of $325.9 million in the prior−year period as increased investment banking revenues were more than offset by decreases in institutional sales and trading revenues.

For the nine months ended September 30, 2010, investment banking revenues increased to $173.4 million, compared with $136.7 million in the prior−year period. Equity financing revenues increased to $71.6 million in the first nine months of 2010, compared with $45.1 million in the corresponding period in the prior year. During the nine months ended September 30, 2010, we completed 61 equity financings, raising $7.9 billion in capital for our clients. During the nine months ended September 30, 2009, we completed 43 equity financings, raising $8.9 billion. In the first nine months of 2010, debt financing revenues declined to $46.0 million, compared with $53.0 million in the corresponding period in 2009. In the first three quarters of 2010, we completed 398 public finance issues with a total par value of $5.4 billion, compared with 379 public finance issues with a total par value of $8.1 billion in the first three quarters of 2009. Advisory services revenues for the first nine months of 2010 increased 44.7 percent to $55.8 million. For the nine months ended September 30, 2010, we completed 32 advisory transactions with an aggregate enterprise value of $7.8 billion, compared with 23 advisory transactions with an aggregate enterprise value of $2.9 billion in the first nine months of 2009.

For the nine months ended September 30, 2010, institutional sales and trading revenues decreased 27.5 percent to $136.0 million, compared with $187.6 million for the prior−year period. Equity institutional sales and trading revenues decreased 14.9 percent to $78.7 million in the first nine months of 2010, compared with $92.5 million in the first nine months of 2009. Fixed income institutional sales and trading revenues decreased to $57.3 million for the nine months ended September 30, 2010, compared with $95.1 million for the corresponding period in 2009.

For the nine months ended September 30, 2010, other income was $2.5 million, compared with $1.6 million in the corresponding period in 2009 due to gains on our firm investments and increased income from the forfeiture of stock−based compensation partially offset by higher interest expense related to funding the capital markets business.

Segment pre−tax operating margin for the nine months ended September 30, 2010 decreased to 8.2 percent from 12.5 percent for the corresponding period in the prior year. In 2010, we experienced a shift in business with investment banking contributing a higher percentage of revenues and fixed income institutional business contributing a lower percentage. Investment banking has a higher level of compensation. This, along with a decline in net revenues, drove the decline in our segment pre−tax operating margin. If this mix of business continues, we anticipate continued pressure on our Capital Markets segment pre−tax operating margin.

Asset Management

	Nine Months Ended September 30,		
	2010	2009	2010 v2009
(Dollars in thousands)			
Net revenues:			
Management and performance fees	**$ 41,839**	$ 9,817	326.2 %
Other income/(loss)	**31**	164	(81.1)
Net revenues	**$ 41,870**	$ 9,981	319.5 %
Pre−tax operating income/(loss)	**$ 9,013**	$ (3,069)	N/M
Pre−tax operating margin	**21.5** %	N/M	

N/M − Not meaningful

For the nine months ended September 30, 2010, asset management revenues increased to $41.9 million as compared to $10.0 million in the first nine months of 2009.

For the nine months ended September 30, 2010, other income/loss was a gain of $31,000, which was essentially flat compared with a gain of $164,000 for the corresponding period in the prior year.

Segment pre–tax operating margin for the first nine months ended September 30, 2010 was 21.5 percent compared to a negative margin for the corresponding period in the prior year.
The following table summarizes the changes in our assets under management for the nine months ended September 30, 2010:

(Dollars in millions)	
Assets under management:	
Balance at December 31, 2009	**$ 6,859**
Assets under management aquired in ARI acquisition	5,563
Net inflows/(outflows)	(415)
Net market appreciation/(depreciation)	744
Balance at September 30, 2010	**$12,751**

For the nine months ended September 30, 2010, assets under management increased $5.9 billion to $12.8 billion as compared to $6.9 billion at December 31, 2009. The increase was attributable to the acquisition of ARI, which was completed on March 1, 2010.

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, 2009. 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 firm investments on our consolidated statements of financial condition consist of financial instruments recorded at fair value. Unrealized gains and losses related to these financial instruments are reflected on our consolidated statements of operations.
The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. When available, we use observable market prices, observable market parameters, or broker or dealer prices (bid and ask prices) to derive the fair value of the instrument. In the case of financial instruments transacted on recognized exchanges, the observable market prices represent quotations for completed transactions from the exchange on which the financial instrument is principally traded. Bid prices represent the highest price a buyer is willing to pay for

a financial instrument at a particular time. Ask prices represent the lowest price a seller is willing to accept for a financial instrument at a particular time.

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 securities. 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. Even where the value of a security is derived 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 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 the Company's derivative contracts can be observed or priced using models based on the net present value of estimated future cash flows. The valuation models used require inputs including contractual terms, market prices, yield curves, credit curves and measures of volatility. The valuation models are monitored over the life of the derivative product. If there are any changes in the underlying inputs, the model is updated for those new inputs.

FASB Accounting Standards Codification Topic 820, "Fair Value Measurements and Disclosures," 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.

Instruments that trade infrequently and therefore have little or no price transparency are classified within Level III based on the results of our price verification process. The Company's Level III assets were $49.4 million and $44.3 million as of September 30, 2010 and December 31, 2009, respectively, and represented approximately 5.2 percent and 5.4 percent of financial instruments measured at fair value. At September 30, 2010, this balance primarily consisted of asset−backed securities, principally collateralized by aircraft and residential mortgages, that have experienced low volumes of executed transactions, such that unobservable inputs had to be utilized for the fair value measurements; and convertible securities for which no recent trade activity was observed, resulting in the use of unobservable inputs. Asset−backed securities collateralized with airplane leases are valued using cash flow models that utilize unobservable inputs including airplane lease rates, trust costs, aircraft valuation and other factors impacting security cash flows. Asset−backed securities collateralized with residential mortgages are valued using cash flow models that utilize unobservable inputs that include credit default rates, prepayment rates and severity rates. Convertible securities are valued using models that utilize observable inputs such as specific company stock price and volatility and unobservable inputs that include option adjusted spreads. Fixed income securities are valued using models that utilize observable inputs such as security contractual terms and yield curves and unobservable inputs such as credit spreads.

During the first nine months of 2010, we recorded net sales of $14.9 million of Level III assets, primarily consisting of $15.4 million of net sales of short−term municipal securities and $9.7 million of net sales of asset−backed securities, offset with $7.1 million in net purchases of convertible securities. We had net transfers of $13.2 million of assets from Level II to Level III in the first nine months of 2010. Transfers of net assets from Level II to Level III were related to fixed income securities and asset−backed securities, where no recent trade activity was observed and valuation inputs became unobservable. During the first nine months of 2010, net gains (realized and unrealized) on Level III assets of $6.8 million were attributed to increased fair values of certain convertible securities and certain investments as well as gains on the sale of certain asset−backed securities and certain convertible securities. These net gains were offset by losses on the sale of certain short−term securities.

With respect to liabilities, during the nine months ended September 30, 2010 we recorded net sales of $3.3 million of Level III liabilities primarily consisting of $8.0 million of net sales related to fixed income securities made to facilitate customer activity offset by $4.8 million in net purchases of asset−backed securities. There were $1.8 million of net transfers of financial liabilities from Level III to Level II for the nine months ended September 30, 2010 related to asset−backed securities for which market trades were observed in the quarter that provided for transparency into the valuation of these liabilities offset by net transfers of certain fixed income securities into Level III where no recent trade activity was observed and valuation inputs became unobservable.

Financial instruments carried at contract amounts have short−term maturities (one year or less), are repriced frequently or bear market interest rates and, accordingly, the carrying amount of those contracts approximate fair value. Financial instruments carried at contract amounts on our consolidated statements of financial condition include receivables from and payables to brokers, dealers and clearing organizations, securities purchased under agreements to resell, securities sold under agreements to repurchase, receivables from and payables to customers and short−term financing.

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 September 30, 2010, we had goodwill of $316.9 million. This goodwill balance primarily consists of $152.3 million recorded in 2010 as a result of the acquisition of Advisory Research Holdings, Inc. $44.4 million recorded in 2007 as a result of the acquisition of FAMCO, and $105.5 million as a result of the 1998 acquisition by U.S. Bancorp of our predecessor, Piper Jaffray Companies Inc., and its subsidiaries.

Under FASB Accounting Standards Codification Topic 350, “Intangibles — Goodwill and Other,” we are required to perform impairment tests of our goodwill and indefinite−lived 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. The goodwill impairment test is a two−step process, 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 principal 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, price−to−earnings and tangible capital ratios 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.

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.

We last completed our annual goodwill impairment testing as of November 30, 2009, and no impairment was identified. We also tested the definite−lived intangible assets acquired as part of the FAMCO acquisition and concluded there was no impairment.

Given existing market conditions, declining profitability, the uncertain economic outlook and that our common shares are trading below book value at September 30, 2010, it is possible there could be future impairment within a reporting unit depending on changes in these factors. Because 100 percent of goodwill is treated as a non−allowable asset for regulatory purposes, the impact of any future impairment on net capital would not be significant, but the results of operations in that period could be materially adversely affected.

Stock−Based Compensation

As part of our compensation to employees and directors, we use stock−based compensation, consisting of restricted stock 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 in the statements of operations at grant date fair value over the service period of the award, net of estimated forfeitures.

Compensation paid to employees in the form of restricted stock or stock options is generally accrued or amortized on a straight–line basis over the required service period of the award and is included in our results of operations as compensation expense. The majority of these awards have a three–year cliff vesting schedule and provide for continued vesting after termination, 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. These post–termination restrictions do not meet the criteria for an in–substance service condition as defined by ASC 718. Accordingly, such restricted stock and option grants are expensed in the period in which those awards are deemed to be earned, which is generally the calendar year preceding our annual February equity grant. If any of these awards are cancelled, the lower of the fair value at grant date or the fair value at the date of cancellation is recorded within other income in the consolidated statements of operations.

Performance–based restricted stock awards 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 compensation expense accounted for using a cumulative effect adjustment.

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

We granted stock options in fiscal years 2004 through 2008. In determining the estimated fair value of stock options, we used the Black–Scholes option–pricing model. This model requires management to exercise judgment with respect to certain assumptions, including the expected dividend yield, the expected volatility, and the expected life of the options.

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, recorded estimated 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. Subject to the foregoing, we believe, based on our current knowledge, after appropriate consultation with outside legal counsel and after taking into account our established reserves, that pending litigation, arbitration and regulatory proceedings will be resolved with no material adverse effect on our financial condition. 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 in that period could be materially adversely affected.

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 future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases as well as 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 recorded 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. If however, our projections of future taxable profits do not materialize, we may conclude that a valuation allowance is needed. We have recorded a deferred tax asset valuation allowance of $6.1 million related to U.K. subsidiary net operating loss carry forwards.

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. As of September 30, 2010, we do not have any available excess tax benefits within additional paid−in capital. Approximately 630,000 shares of restricted stock vested in the first nine months of 2010 at values less than the grant date fair value resulting in $5.6 million of income tax expense in the first nine months of 2010. Based on our share price as of September 30, 2010, we estimate that the value of approximately 1,120,000 shares vesting in the first quarter of 2011 will be less than the grant date fair value resulting in $5.2 million of income tax expense in the first quarter of 2011. The amount of any additional income tax expense is directly correlated to Piper Jaffray Companies share price at the date of vesting.

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.

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 customers and brokers and dealers usually settle within a few days. As part of our liquidity strategy, we emphasize diversification of funding sources to the extent possible and maximize our lower−cost financing alternatives. Our assets are financed by our cash flows from operations, equity capital, and other short−term funding arrangements. The fluctuations in cash flows from financing activities are directly related to daily operating activities from our various businesses.

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 when paid.

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

On April 16, 2008, we announced that our board of directors had authorized the repurchase of up to $100 million in shares of our common stock. In the first half of 2010, we repurchased 893,050 shares or $30.0 million of our common stock under this authorization. On June 30, 2010, this authorization expired and our board of directors approved a new repurchase authorization on July 28, 2010 of up to $75 million in shares of our common stock. Under the new authorization, we repurchased 540,532 shares or $15.2 million of our common stock during the third quarter. This new authorization expires on September 30, 2012.

We currently do not have a credit rating, which may adversely affect our liquidity and increase our borrowing costs by limiting access to sources of liquidity that require a credit rating as a condition to providing funds.

Funding Sources

Our funding and liquidity is obtained primarily through the use of repurchase agreements, commercial paper issuance and bank lines of credit and is typically collateralized by our securities inventory. These funding sources are critical to our ability to finance and hold inventory which is a necessary part of our institutional brokerage business. The majority of our inventory is very liquid and is therefore funded by overnight facilities. However, we have established and structured certain funding sources with longer maturities (i.e., our committed line and commercial paper) to mitigate changes in the liquidity of our inventory based on changing market conditions. Our funding sources are also dependant on the types of inventory counterparties are willing to accept as collateral and the number of counterparties available. We currently have a limited number of counterparties that will enter into municipal repurchase agreements. The majority of our bank lines will accept municipal inventory which helps mitigate this municipal repurchase 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.

Short−term financing

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 $275 million with three 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 a $100 million uncommitted unsecured facility with one of these banks. These uncommitted lines are discretionary and are not a commitment by the bank to provide an advance under the line. These lines are subject to approval by the respective bank each time an advance is requested and advances may be denied. We manage our relationships with the banks that provide these uncommitted facilities in order to have appropriate levels of funding for our business. At September 30, 2010, we had $50 million in advances against these lines of credit.

Committed Lines — Our committed line is a $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 our U.S. broker dealer subsidiary to maintain a minimum net capital of $150 million, and the unpaid principal amount of all advances under the facility will be due on December 31, 2010. We anticipate being able to renew this credit facility in the fourth quarter of 2010. At September 30, 2010, we had no advances against our committed line of credit.

Commercial Paper Program — In 2009, we initiated a secured commercial paper program to fund a portion of our securities inventories. The maximum amount that may be issued under the program is $300 million, of which $57.0 million was outstanding at September 30, 2010. The commercial paper notes are secured by our securities inventory with maturities on the commercial paper ranging from 27 days to 92 days from date of issuance.

(in millions)	Average balance for the Three Months Ended		
	Sept. 30, 2010	June 30, 2010	March 31, 2010
Funding source:			
Repurchase agreements	**$ 278.7**	$ 342.3	$ 92.3
Securities lending	**–**	9.8	27.7
Commercial paper	**58.8**	46.8	31.1
Short–term bank loans	**6.7**	95.1	74.4
Total	**$ 344.2**	$ 494.0	$ 225.5

(in millions)	Average balance for the Three Months Ended			
	Dec. 31, 2009	Sept. 30, 2009	June 30, 2009	March 31, 2009
Funding source:				
Repurchase agreements	$ 21.9	$ 30.0	$ 90.3	$ 33.7
Securities lending	27.9	3.1	–	–
Commercial paper	0.7	–	–	–
Short–term bank loans	37.1	20.8	38.0	13.6
Total	$ 87.6	$ 53.9	$ 128.3	$ 47.3

The average funding balance for the first quarter of 2010 was $225.5 million, compared with $494.0 million during the second quarter of 2010. The change in average funding balances during the first and second quarter of 2010 was driven by our acquisition of ARI at the beginning of March, higher average inventory balances in the second quarter and the annual cash incentive payout made at the end of February. The average funding balance in the third quarter of 2010 declined to $344.2 million, compared with $494.0 million during the second quarter of 2010, due to a decline in average inventory balances.
The average funding balance for the third quarter of 2010 was $344.2 million, compared with $53.9 million in the third quarter of 2009. This increase was a result of our acquisition of ARI in March 2010 and higher average inventory balances.

Variable rate senior notes

On December 31, 2009, we issued variable rate senior notes (“Notes”) in the amount of $120 million. The initial holders of the Notes are certain entities advised by Pacific Investment Management Company LLC (“PIMCO”). The unpaid principal amount of the Notes will be due on December 31, 2010. We have recently engaged a financial institution to conduct a refinancing of these notes and we are currently evaluating several refinancing options.

Contractual Obligations

Our contractual obligations have not materially changed from those reported in our Annual Report to Shareholders on Form 10–K for the year ended December 31, 2009.

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 rule and the net capital rule of FINRA. 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 September 30, 2010, our net capital under the SEC’s Uniform Net Capital Rule was $211.4 million, and exceeded the minimum net capital required under the SEC rule by $210.2 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 revenue producing activities.

Piper Jaffray Ltd., our broker dealer subsidiary registered in the United Kingdom, is subject to the capital requirements of the U.K. Financial Services Authority. Each of our Piper Jaffray Asia entities licensed by the Hong Kong Securities and Futures Commission is subject to the liquid capital requirements of the Securities and Futures (Financial 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 September 30, 2010 and December 31, 2009:

Expiration Per Period at September 30, 2010							Total Contractual Amount	
(Dollars in thousands)	Remainder of 2010	2011	2012	2013–2014	2015–2016	Later	**September 30, 2010**	December 31, 2009
Customer matched−book derivative contracts (1)(2)	$ –	$ –	$ –	$ 155,090	$ 148,585	$ 6,167,224	**$ 6,470,899**	$ 6,795,186
Trading securities derivative contracts (2)	–	–	–	–	–	202,250	**202,250**	234,500
Credit default swap index contracts (2)	–	–	–	–	140,000	–	**140,000**	–
Foreign currency forward contract (2)	4,891	–	–	–	–	–	**4,891**	–
Loan commitments	–	–	–	–	–	–	**–**	5,000
Private equity and other principal investments	–	–	–	–	–	–	**2,742**	3,652

(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 are mitigated by collateral deposits. In addition, we have a limited number of counterparties (contractual amount of $268.6 million at September 30, 2010) who are not required to post collateral. Based on market movements, the uncollateralized amounts representing the fair value of the derivative contract can become material, exposing us to the credit risk of these counterparties. At September 30, 2010, we had $31.4 million of credit exposure with these counterparties, including $17.5 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 September 30, 2010 and December 31, 2009, the net fair value of these derivative contracts approximated $28.5 million and $14.1 million, respectively.

Derivatives

Derivatives' notional contract amounts are not reflected as assets or liabilities on our consolidated statements of financial condition. Rather, the market value, or 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 presented on a net basis by counterparty when a legal right of offset exists and 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, market value and credit risks associated with our security positions. 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. 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 unaudited consolidated financial statements.

Loan Commitments

We may commit to short−term bridge−loan financing for our clients or make commitments to underwrite corporate debt. We had no loan commitments outstanding at September 30, 2010.

Private Equity and Other Principal Investments

We have committed capital to certain non−consolidated private−equity funds. These commitments have no specified call dates. We had $2.7 million of fund commitments outstanding at September 30, 2010.

Special Purpose Entities

As of September 30, 2010, we have investments in various entities, typically partnerships or limited liability companies, established for the purpose of investing in equity and debt securities of public and private investments. We commit capital or act as the managing partner or member of these entities. Some of these entities are deemed to be VIEs. For a complete discussion of our activities related to these types of entities, see Note 7, “Variable Interest Entities,” to our unaudited consolidated financial statements.

Other Off−Balance Sheet Exposure

Our other types of off−balance−sheet arrangements include contractual commitments. For a discussion of our activities related to these off−balance sheet arrangements, see Note 17, “Contingencies and Commitments,” to our consolidated financial statements included in our Annual Report to Shareholders on Form 10−K for the year ended December 31, 2009.

Enterprise Risk Management

Risk is an inherent part of our business, and the extent to which we properly identify and effectively manage this risk is critical to our financial condition and profitability. 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 financial risk committee is the firm’s primary risk committee and it is responsible for market, credit and liquidity risk oversight. The committee has twelve members, each of whom serves indefinitely. The committee includes many of the Company’s senior executive officers, such as its chief executive officer, president, chief financial officer, general counsel, global head of equities, and head of fixed income. It also includes two business unit trading senior managers, financial risk management personnel and the treasurer.

The financial risk committee has established certain risk limits within market, credit and liquidity risk. The limits are binding and business units are required to function within the risk framework approved for their respective business activity. With respect to market risk, we have established limits in our trading groups to address risk concentrations by asset class, including value−at−risk (“VaR”), duration exposure, and net market positions. We also have established limits for credit exposures to address total exposure, sector concentrations, rating concentrations, single name limits, and similar matters. Lastly, we establish liquidity exposure limits for certain products to address our ability to fund financial instruments and other inventory positions owned and to reasonably mitigate liquidity risk. We set these limits based on type of financial instrument and our ability to use the financial instruments as collateral under various financing facilities, such as bank loans or securities sold under agreements to repurchase.

In setting these limits, select exposures have been set tightly in our judgment to ensure that we are effectively monitoring risk exposures and evolving business practices. Each quarter certain limits are exceeded, and these exceptions are reported to the financial risk committee monthly and the Audit Committee of our Board of Directors quarterly. If these limits are exceeded, management may determine to temporarily waive the risk limit in accordance with a process set forth in the charter for the financial risk committee. The process consists of a series of escalation procedures that require notification, a defined rationale for exception requests, and approval of the limit exception by financial risk management, the applicable business unit head, and, in certain circumstances, the Company’s chief executive officer, president, and chief financial officer.

With respect to market risk and credit risk more generally, our risk management process is focused on daily communication among traders, trading department management and senior management concerning our inventory positions and overall risk profile. Our risk management function supplements this communication process by providing their independent perspectives on our market and credit risk profile on a daily basis. The broader goals of our risk management function 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 securities inventory valuations.

In addition to supporting daily risk management processes on the trading desks, our risk management function supports our financial risk committee.

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 proprietary 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. 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 utilize interest rate swap contracts to hedge a portion of our fixed income inventory and to hedge rate lock agreements and forward bond purchase agreements we may enter into with our public finance customers. Additionally, we historically used interest rate swap agreements to hedge residual cash flows from our tender option bond program. 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. These interest rate swap contracts are recorded at fair value with the changes in fair value recognized in earnings.

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. and European markets 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 to the stockholders' equity section of our consolidated statements of financial condition.

Value−at−Risk

VaR is the potential loss in value of our trading positions 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, exchange traded options, and all associated economic hedges. These positions encompass both customer−related activities and proprietary investments. 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 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 add 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 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)	**September 30, 2010**	December 31, 2009
Interest Rate Risk	**$ 560**	$ 1,147
Equity Price Risk	**129**	68
Diversification Effect (1)	**(163)**	(74)
Total Value–at–Risk	**$ 526**	$ 1,141

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

We view average VaR over a period of time as more representative of trends in the business than VaR at any single point in time. The table below illustrates the daily high, low and average value–at–risk calculated for each component of market risk during the nine months ended September 30, 2010 and the year ended December 31, 2009, respectively.

For the Nine Months Ended September 30, 2010

(Dollars in thousands)	High	Low	Average
Interest Rate Risk	$ 4,359	$ 178	$ 1,673
Equity Price Risk	3,414	27	233
Diversification Effect (1)			(262)
Total Value–at–Risk	$ 4,227	$ 165	$ 1,644

For the Year Ended December 31, 2009

(Dollars in thousands)	High	Low	Average
Interest Rate Risk	$ 2,947	$ 531	$ 1,397
Equity Price Risk	951	21	221
Diversification Effect (1)			(252)
Total Value–at–Risk	$ 2,937	$ 513	$ 1,366

(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 incurred on a single day exceeded our one–day VaR on seven occasions during the first nine months of 2010.

The aggregate VaR as of September 30, 2010 was lower compared to levels reported as of December 31, 2009. This is due principally to two factors: (1) more efficient position management and (2) continuing shift to lower duration assets on the overall balance sheet, as market participants have shifted to short–term maturities.

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 onto a security for substantially longer than we had planned. Our inventory positions 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 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 repurchase agreements, securities lending arrangements, 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. We also have a committed bank line to further manage liquidity risk.

We have a relatively low leverage ratio of 2.56 as of September 30, 2010. This compares to our leverage ratio of 2.19 as of December 31, 2009. The change in our leverage ratio is primarily the result of increased inventory as well as the acquisition of ARI in March of 2010. We calculate our leverage ratio by dividing total assets by total shareholders' equity.

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 $5.8 billion of variable rate demand notes, all of which have a financial institution providing a liquidity guarantee. As remarketing agent for our clients' variable rate demand notes, we are the first source of liquidity for sellers of these instruments. 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.

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 expected failure of large market participants.

In addition to the financial risk committee, our global commitment committee reviews and approves certain underwriting capital markets transactions, as well as certain strategic short and medium−term credit−based transactions. Composition of this committee is determined by professional experience and ability to contribute to the assessment of underwriting opportunities. Committee membership is permanent and includes the chief executive officer, president, senior manager from financial risk management, chief counsel to the business line, and numerous other senior level leaders of the Company.

During our capital raising activities with customers we may, from time to time, enter into bought−deal agreements whereby we purchase a large block of securities from an issuer client. These agreements may require us to increase equity inventories by more than what is normal through our market making activities. Although these deals may increase our risk profile for a short period of time, the transactions are structured to mitigate the market risk to the Company.

The public finance services commitment committee reviews and approves certain non−rated public finance underwiting opportunities. Committee membership is permanent and consists of our head of public finance, head of fixed income, a senior manager from financial risk management, chief counsel to the business line, and two senior members of fixed income trading management.

We have concentrated counterparty credit exposure with six non−publicly rated entities totaling $31.4 million at September 30, 2010. This counterparty credit exposure is part of our derivative program, consisting primarily of interest rate swaps. One derivative counterparty represents 55.7 percent, or $17.5 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 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. and Hong Kong is monitored daily. Our risk management functions have created credit risk policies establishing appropriate credit limits and collateralization thresholds for our customers utilizing margin lending.

Credit exposure associated with our investments in private company debt instruments are monitored regularly by our financial risk committee. These investments are recorded in other assets at amortized cost on the consolidated statement of financial condition. At September 30, 2010, we had two debt investments totaling $10.5 million. One of these debt investments in the amount of $5.5 million is in default as of September 30, 2010; however, we currently believe that the value of our secured collateral exceeds $5.5 million and accordingly, we have not recorded an impairment loss on this loan as of September 30, 2010.

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 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 enter into credit default swap index contracts to hedge this risk, which may not work in all market environments and as a result may not be effective in mitigating credit risk. These credit default swap index contracts are recorded at fair value with the changes in fair value recognized in earnings.

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, 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.

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.

Effects of Inflation

Because our assets are generally 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 third quarter of the fiscal year ended December 31, 2010, 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.

PART II. OTHER INFORMATION

ITEM 1. *LEGAL PROCEEDINGS.*

The following supplements and amends our discussion set forth under Part I, Item 3 "Legal Proceedings" in our Annual Report on Form 10−K for the fiscal year ended December 31, 2009, as updated by our Quarterly Report on Form 10−Q for the quarter ended March 31, 2010.

Union County, Iowa v. Piper Jaffray & Co., Inc.

Piper Jaffray & Co., Inc., has been named as a defendant in a complaint filed in federal district court in Des Moines, Iowa on June 30, 2006. The claim arises in connection with two municipal financings completed by Union County in 1997 and 1998 aggregating approximately $6.0 million, for which Piper Jaffray & Co. acted as underwriter, and alleges breach of fiduciary duty, breach of contract, negligent misrepresentation, negligence and fraud. On September 29, 2010, Piper Jaffray & Co.'s motion for summary judgment was granted in part (with respect to the breach of contract claim) and denied in part (as to the other claims). A trial is currently scheduled to commence on December 6, 2010. We believe that Piper Jaffray & Co. has meritorious defenses to the action and intends to vigorously defend against it.

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, 2009 filed with the SEC, as updated in our subsequent reports on Form 10−Q filed with the SEC. 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.

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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 September 30, 2010.

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 that May Yet Be Purchased Under the Plans or Programs (1)
Month #1 (July 1, 2010 to July 31, 2010)	0	$ –	0	$ 75 million (1)
Month #2 (August 1, 2010 to August 31, 2010)	422,331 (2)	$ 28.01	404,403	$ 64 million
Month #3 (September 1, 2010 to September 30, 2010)	136,129 (3)	$ 28.63	136,129	$ 60 million
Total	558,460	$ 28.16	540,532	$ 60 million

(1) *On July 28, 2010, we announced that our board of directors had authorized the repurchase of up to $75 million of common stock through September 30, 2012.*

(2) *Consists of 404,403 shares of common stock repurchased on the open market pursuant to a 10b5–1 plan established with an independent agent at an average price per share of $28.01, and 17,928 shares of common stock withheld from recipients of restricted stock to pay taxes upon the vesting of the restricted stock at an average price per share of $28.00.*

(3) *Consists of 136,129 shares of common stock repurchased on the open market pursuant to a 10b5–1 plan established with an independent agent at an average price per share of $28.63.*

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

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ITEM 6. ***EXHIBITS.***

Exhibit Number	Description	Method of Filing
10.1	Note Purchase Agreement dated December 31, 2009 among Piper Jaffray Companies, Piper Jaffray & Co. and the Purchasers party thereto	Filed herewith
10.2	Third Amendment to Loan Agreement (Broker–Dealer VRDN), dated September 30, 2010 between Piper Jaffray & Co. and U.S. Bank National Association	Filed herewith
31.1	Rule 13a–14(a)/15d–14(a) Certification of Chief Executive Officer.	Filed herewith
31.2	Rule 13a–14(a)/15d–14(a) Certification of Chief Financial Officer.	Filed herewith
32.1	Certifications furnished pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes–Oxley Act of 2002.	Filed herewith
101	Interactive data files pursuant to Rule 405 of Regulation S–T: (i) the Consolidated Statements of Financial Condition as of September 30, 2010 and December 31, 2009, (ii) the Consolidated Statements of Operations for the three and nine months ended September 30, 2010 and 2009, (iii) the Consolidated Statements of Cash Flows for the nine months ended September 30, 2010 and 2009 and (iv) the notes to the Consolidated Financial Statements, tagged as blocks of text.	Filed herewith

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on November 3, 2010.

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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Exhibit 10.1

Piper Jaffray Companies
$120,000,000
Variable Rate Senior Notes due December 31, 2010

Note Purchase Agreement

Dated December 31, 2009

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Piper Jaffray Companies
800 Nicollet Mall, Suite 800
Minneapolis, Minnesota 55402
Variable Rate Senior Notes due December 31, 2010

December 31, 2009

To each of the Purchasers Listed in
Schedule A Hereto:

Ladies and Gentlemen:

PIPER JAFFRAY COMPANIES, a Delaware corporation (the **"Company"),** agrees with each of the purchasers whose name appears at the end hereof (each, a **"Purchaser"** and, collectively, the **"Purchasers")** as follows:

Section 1. Authorization of Notes.

Section 1.1. Description of Notes. The Company will authorize the issue and sale of $120,000,000 aggregate principal amount of its Variable Rate Senior Notes due December 31, 2010 (the **"Notes",** such term to include any such notes issued in substitution therefor (including Global Notes) pursuant to Section 13). The Notes shall be substantially in the form set out in Exhibit A−1 or A−2, as applicable. Certain capitalized and other terms used in this Agreement are defined in Schedule B; and references to a "Schedule" or an "Exhibit" are, unless otherwise specified, to a Schedule or an Exhibit attached to this Agreement.

Section 1.2. Interest Rate. The Notes shall bear interest (computed on the basis of actual days elapsed and a 360−day year) (a) on the unpaid balance thereof at the rate per annum equal to the Interest Rate from the date thereof, payable on the last day of March, June, September and December in each year (each, an **"Interest Payment Date")** and at maturity, commencing on March 31, 2010 until the principal thereof shall have become due and payable, and (b) to the extent permitted by law, on any overdue payment (including any overdue prepayment) of principal and on any overdue payment of interest, at a rate per annum from time to time equal to 2% over the rate of interest set forth in clause (a), payable quarterly on each Interest Payment Date, as aforesaid (or at the option of the registered holder thereof, on demand). Interest payable on each Interest Payment Date will be paid to the holders of the Notes as of the immediately preceding Record Date. **"Record Date"** means, with respect to any Interest Payment Date, the tenth Business Day prior to such Interest Payment Date.

Section 2. Sale and Purchase of Notes.

Subject to the terms and conditions of this Agreement, the Company will issue and sell to Piper Jaffray & Co. as **"Initial Purchaser"** Notes in the aggregate principal amount of $120,000,000 at the purchase price of 100% of the principal amount thereof, and Initial Purchaser will sell to each Purchaser and each Purchaser will purchase from the Initial Purchaser, at the Closing provided for in Section 3, Notes in the principal amount specified opposite such Purchaser's name in Schedule A at the purchase price of 100% of the principal amount thereof. The Purchasers' obligations hereunder are several and not joint obligations and no Purchaser shall have any liability to any Person for the performance or non–performance of any obligation by any other Purchaser hereunder.

Section 3. Closing.

The sale and purchase of the Notes to be purchased by each Purchaser shall occur at the offices of Faegre & Benson LLP, 90 South 7th Street, Suite 2200, Minneapolis, Minnesota 55402, at 10:00 a.m., Minneapolis time, at a closing (the **"Closing"**) on December 31, 2009. At the Closing, the Initial Purchaser will deliver to each Purchaser through the DTC book–entry system pursuant to Section 13.4 (in denominations of at least $500,000 as such Purchaser may request) beneficial interests in the Notes, which shall be evidenced by a Global Note dated the date of the Closing and registered in the name of Cede & Co., as nominee of DTC, against delivery by such Purchaser to the Initial Purchaser or its order of immediately available funds in the amount of the purchase price therefor by same day settlement process through DTC. If at the Closing the Initial Purchaser shall fail to tender such Notes to any Purchaser as provided above in this Section 3, or any of the conditions specified in Section 4 shall not have been fulfilled to such Purchaser's satisfaction, such Purchaser shall, at its election, be relieved of all further obligations under this Agreement, without thereby waiving any rights such Purchaser may have by reason of such failure or such nonfulfillment.

Section 4. Conditions to Closing.

Such Purchaser's obligation to purchase and pay for the Notes to be sold to such Purchaser at the Closing is subject to the fulfillment to such Purchaser's satisfaction, prior to or at the Closing, of the following conditions:

Section 4.1. Representations and Warranties. The representations and warranties of the Company in this Agreement shall be correct when made and at the time of the Closing.

Section 4.2. Performance; No Default. The Company shall have performed and complied with all agreements and conditions contained in this Agreement required to be performed or complied with by it prior to or at the Closing and after giving effect to the issue and sale of the Notes (and the application of the proceeds thereof as contemplated by Section 5.14) no Default or Event of Default shall have occurred and be continuing. Neither the Company nor any Subsidiary shall have entered into any transaction since December 18, 2009 that would have been prohibited by Sections 10.1 through 10.4 had such Sections applied since such date.

Section 4.3. Compliance Certificates.

(a) *Officer's Certificate.* The Company shall have delivered to such Purchaser an Officer's Certificate, dated the date of the Closing, certifying that the conditions specified in Sections 4.1, 4.2 and 4.8 have been fulfilled.

(b) *Secretary's Certificate.* The Company shall have delivered to such Purchaser a certificate of its Secretary or Assistant Secretary, dated the date of Closing, certifying as to the resolutions attached thereto and other corporate proceedings relating to the authorization, execution and delivery of the Notes and this Agreement.

Section 4.4. Opinion of Counsel. Such Purchaser shall have received opinions in form and substance satisfactory to such Purchaser, dated the date of the Closing from Faegre & Benson LLP, counsel for the Company, covering the matters set forth in Exhibit 4.4(a) and covering such other matters incident to the transactions contemplated hereby as such Purchaser or its counsel may reasonably request (and the Company hereby instructs its counsel to deliver such opinion to the Purchasers).

Section 4.5. Purchase Permitted By Applicable Law, Etc. On the date of the Closing such Purchaser's purchase of Notes shall (a) be permitted by the laws and regulations of each jurisdiction to which such Purchaser is subject, (b) not violate any applicable law or regulation (including, without limitation, Regulation T, U or X of the Board of Governors of the Federal Reserve System) and (c) not subject such Purchaser to any tax, penalty or liability under or pursuant to any applicable law or regulation. If requested by such Purchaser, such Purchaser shall have received an Officer's Certificate certifying as to such matters of fact as such Purchaser may reasonably specify to enable such Purchaser to determine whether such purchase is so permitted.

Section 4.6. Sale of Other Notes. Contemporaneously with the Closing, the Initial Purchaser shall sell to each other Purchaser and each other Purchaser shall purchase the Notes to be purchased by it at the Closing as specified in Schedule A.

Section 4.7. Payment of Special Counsel Fees. Without limiting the provisions of Section 15.1, the Company shall have paid on or before the Closing the fees, charges and disbursements of the Purchasers' special counsel, Latham & Watkins LLP, to the extent reflected in a statement of such counsel rendered to the Company at least one Business Day prior to the Closing.

Section 4.8. Private Placement Number. A Private Placement Number issued by Standard & Poor's CUSIP Service Bureau (in cooperation with the SVO) shall have been obtained for the Notes.

Section 4.9. Changes in Corporate Structure. The Company shall not have changed its jurisdiction of incorporation or organization, as applicable, or been a party to any merger or consolidation or succeeded to all or any substantial part of the liabilities of any other entity, at any time following the date of the most recent financial statements referred to in Schedule 5.5.

Section 4.10. Proceedings and Documents. All corporate and other proceedings in connection with the transactions contemplated by this Agreement and all documents and instruments incident to such transactions shall be satisfactory to such Purchaser and its special counsel, and such Purchaser and its special counsel shall have received all such counterpart originals or certified or other copies of such documents as such Purchaser or such special counsel may reasonably request.

Section 5. Representations and Warranties of the Company.

The Company represents and warrants to each Purchaser that:

Section 5.1. Organization; Power and Authority. The Company is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation, and is duly qualified as a foreign corporation and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. The Company has the corporate power and authority to own or hold under lease the properties it purports to own or hold under lease, to transact the business it transacts and proposes to transact, to execute and deliver this Agreement and the Notes and to perform the provisions hereof and thereof.

Section 5.2. Authorization, Etc. This Agreement and the Notes have been duly authorized by all necessary corporate action on the part of the Company, and this Agreement constitutes, and upon execution and delivery thereof each Note will constitute, a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except as such enforceability may be limited by (i) applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and (ii) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Section 5.3. Disclosure. This Agreement and the documents, certificates or other writings delivered to the Purchaser by or on behalf of the Company in connection with the transactions contemplated hereby and identified in Schedule 5.3, and the financial statements listed in Schedule 5.5 (this Agreement and such documents, certificates or other writings and such financial statements delivered to each Purchaser prior to the date hereof being referred to, collectively, as the **"Disclosure Documents"),** taken as a whole, do not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading in light of the circumstances under which they were made. Except as disclosed in the Disclosure Documents, since December 31, 2008, there has been no change in the financial condition, operations, business, properties or prospects of the Company or any Subsidiary except changes that individually or in the aggregate could not reasonably be expected to have a Material Adverse Effect. There is no fact known to the Company that could reasonably be expected to have a Material Adverse Effect that has not been set forth herein or in the Disclosure Documents.

Section 5.4. Organization and Ownership of Shares of Subsidiaries; Affiliates. (a) Schedule 5.4 contains (except as noted therein) complete and correct lists (i) of the Company's Subsidiaries, showing, as to each Subsidiary, the correct name thereof, the jurisdiction of its organization, and the percentage of shares of each class of its capital stock or similar equity interests outstanding owned by the Company and each other Subsidiary, (ii) of the Company's Affiliates, other than Subsidiaries, and (iii) of the Company's directors and senior officers.

(b) All of the outstanding shares of capital stock or similar equity interests of each Subsidiary shown in Schedule 5.4 as being owned by the Company and its Subsidiaries have been validly issued, are fully paid and nonassessable and are owned by the Company or another Subsidiary free and clear of any Lien (except as otherwise disclosed in Schedule 5.4).

(c) Each Subsidiary identified in Schedule 5.4 is a corporation or other legal entity duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, and is duly qualified as a foreign corporation or other legal entity and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Each such Subsidiary has the corporate or other power and authority to own or hold under lease the properties it purports to own or hold under lease and to transact the business it transacts and proposes to transact.

(d) No Subsidiary is a party to, or otherwise subject to any legal, regulatory, contractual or other restriction (other than this Agreement, the agreements listed on Schedule 5.4 and customary limitations imposed by corporate law or similar statutes) restricting the ability of such Subsidiary to pay dividends out of profits or make any other similar distributions of profits to the Company or any of its Subsidiaries that owns outstanding shares of capital stock or similar equity interests of such Subsidiary.

Section 5.5. Financial Statements; Material Liabilities. The Company has delivered to each Purchaser copies of the financial statements of the Company and its Subsidiaries listed on Schedule 5.5. All of said financial statements (including in each case the related schedules and notes) fairly present in all material respects the consolidated financial position of the Company and its Subsidiaries as of the respective dates specified in such Schedule and the consolidated results of their operations and cash flows for the respective periods so specified and have been prepared in accordance with GAAP consistently applied throughout the periods involved except as set forth in the notes thereto (subject, in the case of any interim financial statements, to normal year–end adjustments). The Company and its Subsidiaries do not have any Material liabilities that are not disclosed on such financial statements or otherwise disclosed in the Disclosure Documents.

Section 5.6. Compliance with Laws, Other Instruments, Etc. The execution, delivery and performance by the Company of this Agreement and the Notes will not (i) contravene, result in any breach of, or constitute a default under, or result in the creation of any Lien in respect of any property of the Company or any Subsidiary under, any indenture, mortgage, deed of trust, loan, purchase or credit agreement, lease, corporate charter or by–laws, or any other agreement or

instrument to which the Company or any Subsidiary is bound or by which the Company or any Subsidiary or any of their respective properties may be bound or affected, (ii) conflict with or result in a breach of any of the terms, conditions or provisions of any order, judgment, decree, or ruling of any court, arbitrator or Governmental Authority applicable to the Company or any Subsidiary or (iii) violate any provision of any statute or other rule or regulation of any Governmental Authority applicable to the Company or any Subsidiary.

Section 5.7. Governmental Authorizations, Etc. No consent, approval or authorization of, or registration, filing or declaration with, any Governmental Authority is required in connection with the execution, delivery or performance by the Company of this Agreement or the Notes, except for the filing with the SEC of a Current Report on Form 8–K and a Form D.

Section 5.8. Litigation; Observance of Agreements, Statutes and Orders. (a) Except as identified under "Legal Proceedings" in Part I, Item 3 of the Company's Annual Report on Form 10–K for the year ended December 31, 2008, and updated in subsequent reports filed with the SEC, there are no actions, suits, investigations or proceedings pending or, to the knowledge of the Company, threatened against or affecting the Company or any Subsidiary or any property of the Company or any Subsidiary in any court or before any arbitrator of any kind or before or by any Governmental Authority that, if determined adversely to the Company or any Subsidiary, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

(b) Neither the Company nor any Subsidiary is in default under any term of any agreement or instrument to which it is a party or by which it is bound, or any order, judgment, decree or ruling of any court, arbitrator or Governmental Authority or is in violation of any applicable law, ordinance, rule or regulation (including without limitation Environmental Laws or the USA Patriot Act) of any Governmental Authority, which default or violation, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

Section 5.9. Taxes. The Company and its Subsidiaries have filed all tax returns that are required to have been filed in any jurisdiction, and have paid all taxes shown to be due and payable on such returns and all other taxes and assessments levied upon them or their properties, assets, income or franchises, to the extent such taxes and assessments have become due and payable and before they have become delinquent, except for any taxes and assessments (i) the amount of which is not individually or in the aggregate Material or (ii) the amount, applicability or validity of which is currently being contested in good faith by appropriate proceedings and with respect to which the Company or a Subsidiary, as the case may be, has established adequate reserves in accordance with GAAP. The Company knows of no basis for any other tax or assessment that could reasonably be expected to have a Material Adverse Effect. The charges, accruals and reserves on the books of the Company and its Subsidiaries in respect of Federal, state or other taxes for all fiscal periods are adequate. The Federal income tax liabilities of the Company and its Subsidiaries have been finally determined (whether by reason of completed audits or the statute of limitations having run) for all fiscal years up to and including the fiscal year ended December 31, 2005.

Section 5.10. Title to Property; Leases. The Company and its Subsidiaries have good and sufficient title to their respective properties that individually or in the aggregate are Material, including all such properties reflected in the most recent audited balance sheet referred to in Section 5.5 or purported to have been acquired by the Company or any Subsidiary after said date (except as sold or otherwise disposed of in the ordinary course of business), in each case free and clear of Liens prohibited by this Agreement. All leases that individually or in the aggregate are Material are valid and subsisting and are in full force and effect in all material respects.

Section 5.11. Licenses, Permits, Etc. (a) The Company and its Subsidiaries own or possess all licenses, permits, franchises, authorizations, patents, copyrights, proprietary software, service marks, trademarks and trade names, or rights thereto, that individually or in the aggregate are Material, without known conflict with the rights of others.

(b) To the best knowledge of the Company, no product of the Company or any of its Subsidiaries infringes in any material respect any license, permit, franchise, authorization, patent, copyright, proprietary software, service mark, trademark, trade name or other right owned by any other Person.

(c) To the best knowledge of the Company, there is no Material violation by any Person of any right of the Company or any of its Subsidiaries with respect to any patent, copyright, proprietary software, service mark, trademark, trade name or other right owned or used by the Company or any of its Subsidiaries.

Section 5.12. Compliance with ERISA. (a) The Company and each ERISA Affiliate have operated and administered each Plan in compliance with all applicable laws except for such instances of noncompliance as have not resulted in and could not reasonably be expected to result in a Material Adverse Effect. Neither the Company nor any ERISA Affiliate has incurred any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to any Plan, and no event, transaction or condition has occurred or exists that could reasonably be expected to result in the incurrence of any such liability by the Company or any ERISA Affiliate, or in the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate, in either case pursuant to Title I or IV of ERISA or to such penalty or excise tax provisions or to section 401(a)(29) or 412 of the Code or section 4068 of ERISA, other than such liabilities or Liens as would not be individually or in the aggregate Material.

(b) The present value of the aggregate benefit liabilities under each of the Plans (other than Multiemployer Plans), determined as of the end of such Plan's most recently ended plan year on the basis of the actuarial assumptions specified for funding purposes in such Plan's most recent actuarial valuation report, did not exceed the aggregate current value of the assets of such Plan allocable to such benefit liabilities. The term **"benefit liabilities"** has the meaning specified in section 4001 of ERISA and the terms **"current value"** and **"present value"** have the meaning specified in section 3 of ERISA.

(c) The Company and its ERISA Affiliates have not incurred withdrawal liabilities (and are not subject to contingent withdrawal liabilities) under section 4201 or 4204 of ERISA in respect of Multiemployer Plans that individually or in the aggregate are Material.

(d) The expected postretirement benefit obligation (determined as of the last day of the Company's most recently ended fiscal year in accordance with Financial Accounting Standards Board Statement No. 106, without regard to liabilities attributable to continuation coverage mandated by section 4980B of the Code) of the Company and its Subsidiaries is not Material.

(e) The execution and delivery of this Agreement and the issuance and sale of the Notes hereunder will not involve any transaction that is subject to the prohibitions of section 406 of ERISA or in connection with which a tax could be imposed pursuant to section 4975(c)(1)(A)–(D) of the Code. The representation by the Company to each Purchaser in the first sentence of this Section 5.12(e) is made in reliance upon and subject to the accuracy of such Purchaser's representation in Section 6.2 as to the sources of the funds used to pay the purchase price of the Notes to be purchased by such Purchaser.

Section 5.13. Private Offering by the Company. Neither the Company nor anyone acting on its behalf (including the Initial Purchaser) has offered the Notes or any similar securities for sale to, or solicited any offer to buy any of the same from, or otherwise approached or negotiated in respect thereof with, any person other than the Purchasers. Neither the Company nor anyone acting on its behalf (including the Initial Purchaser) has taken, or will take, any action that would subject the issuance or sale of the Notes to the registration requirements of Section 5 of the Securities Act or to the registration requirements of any securities or blue sky laws of any applicable jurisdiction.

Section 5.14. Use of Proceeds; Margin Regulations. The Company will apply the proceeds of the sale of the Notes to the Initial Purchaser to fund, in part, the acquisition of the capital stock of Advisory Research, Inc. If such acquisition is not consummated, the Company may use the proceeds of the sale of the Notes for other corporate purposes of the Company. No part of the proceeds from the sale of the Notes hereunder will be used, directly or indirectly, for the purpose of buying or carrying any margin stock within the meaning of Regulation U of the Board of Governors of the Federal Reserve System (12 CFR 221), or for the purpose of buying or carrying or trading in any securities under such circumstances as to involve the Company in a violation of Regulation X of said Board (12 CFR 224) or to involve any broker or dealer in a violation of Regulation T of said Board (12 CFR 220). As used in this Section, the terms **"margin stock"** and **"purpose of buying or carrying"** shall have the meanings assigned to them in said Regulation U.

Section 5.15. Existing Indebtedness; Future Liens. (a) Except as described therein, Schedule 5.15 sets forth a complete and correct list of all outstanding Consolidated Funded Indebtedness of the Company and its Subsidiaries as of the date hereof (including a description of the obligors and obligees, principal amount outstanding and collateral therefor, if any, and Guaranty thereof, if any), since which date there has been no Material change in the amounts, interest rates, sinking funds, installment payments or maturities of the Indebtedness of the Company or its Subsidiaries. Neither the Company nor any Subsidiary is in default and no

waiver of default is currently in effect, in the payment of any principal or interest on any Indebtedness of the Company or such Subsidiary and no event or condition exists with respect to any Indebtedness of the Company or any Subsidiary that would permit (or that with notice or the lapse of time, or both, would permit) one or more Persons to cause such Indebtedness to become due and payable before its stated maturity or before its regularly scheduled dates of payment.

(b) Neither the Company nor any Subsidiary is a party to, or otherwise subject to any provision contained in, any instrument evidencing Indebtedness of the Company or such Subsidiary, any agreement relating thereto or any other agreement (including, but not limited to, its charter or other organizational document) which limits the amount of, or otherwise imposes restrictions on the incurring of, Indebtedness of the Company, except as specifically indicated in Schedule 5.15.

Section 5.16. Foreign Assets Control Regulations, Etc. (a) Neither the sale of the Notes by the Company hereunder nor its use of the proceeds thereof will violate the Trading with the Enemy Act, as amended, or any of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) or any enabling legislation or executive order relating thereto.

(b) Neither the Company nor any Subsidiary (i) is a Person described or designated in the Specially Designated Nationals and Blocked Persons List of the Office of Foreign Assets Control or in Section 1 of the Anti–Terrorism Order or (ii) engages in any dealings or transactions with any such Person. The Company and its Subsidiaries are in compliance, in all material respects, with the USA Patriot Act.

(c) No part of the proceeds from the sale of the Notes hereunder will be used, directly or indirectly, for any payments to any governmental official or employee, political party, official of a political party, candidate for political office, or anyone else acting in an official capacity, in order to obtain, retain or direct business or obtain any improper advantage, in violation of the United States Foreign Corrupt Practices Act of 1977, as amended, assuming in all cases that such Act applies to the Company.

Section 5.17. Status under Certain Statutes. Neither the Company nor any Subsidiary is subject to regulation under the Investment Company Act of 1940, as amended, the Public Utility Holding Company Act of 2005, as amended, the ICC Termination Act of 1995, as amended, or the Federal Power Act, as amended.

Section 5.18. Environmental Matters. (a) Neither the Company nor any Subsidiary has knowledge of any claim or has received any notice of any claim, and no proceeding has been instituted raising any claim against the Company or any of its Subsidiaries or any of their respective real properties now or formerly owned, leased or operated by any of them or other assets, alleging any damage to the environment or violation of any Environmental Laws, except, in each case, such as could not reasonably be expected to result in a Material Adverse Effect.

(b) Neither the Company nor any Subsidiary has knowledge of any facts which would give rise to any claim, public or private, of violation of Environmental Laws or damage to the

environment emanating from, occurring on or in any way related to real properties now or formerly owned, leased or operated by any of them or to other assets or their use, except, in each case, such as could not reasonably be expected to result in a Material Adverse Effect.

(c) Neither the Company nor any Subsidiary has stored any Hazardous Materials on real properties now or formerly owned, leased or operated by any of them and has not disposed of any Hazardous Materials in a manner contrary to any Environmental Laws in each case in any manner that could reasonably be expected to result in a Material Adverse Effect; and

(d) All buildings on all real properties now owned, leased or operated by the Company or any Subsidiary are in compliance with applicable Environmental Laws, except where failure to comply could not reasonably be expected to result in a Material Adverse Effect.

Section 5.19 Other Securities. Within the preceding six months, neither the Company nor any other person acting on behalf of the Company (including the Initial Purchaser) has offered or sold to any person any Notes, or any securities of the same or a similar class as the Notes, other than the Notes offered or sold to the Purchasers hereunder. The Company will take reasonable precautions designed to insure that any offer or sale, direct or indirect, in the United States or to any U.S. person (as defined in Rule 902 under the Securities Act) of any Notes or any substantially similar security issued by the Company, within six months subsequent to the date hereof is made under restrictions and other circumstances reasonably designed not to affect the status of the offer and sale of the Notes contemplated by this Agreement as transactions exempt from the registration provisions of the Securities Act.

Section 5.20 Internal Controls.

(a) The Company maintains a system of internal control over financial reporting that complies with the requirements of the Exchange Act and has been designed by the Company's principal executive officer and principal financial officer, or under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

(b) To the knowledge of the Company, the Company's internal control over financial reporting is effective and the Company is not aware of any material weaknesses in its internal control over financial reporting.

(c) The Company maintains disclosure controls and procedures that comply with the requirements of the Exchange Act; such disclosure controls and procedures have been designed to ensure that material information relating to the Company and its Subsidiaries is made known to the Company's principal executive officer and principal financial officer by others within those entities; and, to the knowledge of the Company, such disclosure controls and procedures are effective.

Section 5.21 Investment Company Act. The Company is not, and after giving effect to the offering and sale of the Notes to be issued and sold by the Company under this Agreement

and the application of the net proceeds from such sale as described in Section 5.14, will not be required to register as an “investment company,” as such term is defined in the Investment Company Act.

Section 6. Representations of the Purchasers.

Section 6.1. Purchase for Investment. Each Purchaser severally represents that it is purchasing the Notes for its own account and not with a view to the distribution thereof in violation of the Securities Act, it being recognized that the Initial Purchaser is selling the Notes hereunder solely to Qualified Institutional Buyers pursuant to Rule 144A promulgated by the SEC under the Securities Act, as amended from time to time **(“Rule 144A”).** Each Purchaser understands that the Notes have not been registered under the Securities Act and may be resold only if registered pursuant to the provisions of the Securities Act or if an exemption from registration is available, except under circumstances where neither such registration nor such an exemption is required by law, and that the Company is not required to register the Notes. Each Purchaser represents that it is a Qualified Institutional Buyer acting for its own account (and not for the account of others) or as a fiduciary or agent for others (which others are also Qualified Institutional Buyers) and is aware that the sale of the Notes to such Purchaser will be made in reliance on Rule 144A. Each Purchaser further represents that such Purchaser has had the opportunity to ask questions of the Company and received answers concerning the terms and conditions of the sale of the Notes.

Each Purchaser agrees that it will only offer, sell or otherwise transfer the Notes (a) to the Company or the Initial Purchaser, or by, through or in a transaction approved by, the Initial Purchaser, or (b) as long as the Notes are eligible for resale pursuant to Rule 144A, to a Person it reasonably believes is a Qualified Institutional Buyer under Rule 144A that purchases for its own account or for the account of a Qualified Institutional Buyer to whom notice is given that the transfer is being made in reliance on Rule 144A. Each Purchaser acknowledges that the Company and the Initial Purchaser will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements are no longer accurate, it shall promptly notify the Company and the Initial Purchaser; and if any Purchaser is acquiring any Notes as a fiduciary or agent for one or more Persons who qualifies as Qualified Institutional Buyers, such Purchaser represents that it has sole investment discretion with respect to each such Person and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such Person. Each Purchaser acknowledges that (i) the Initial Purchaser, Piper Jaffray & Co., is a subsidiary of the Company, (ii) its registered representative at Piper Jaffray & Co. in connection with this purchase is an employee of Piper Jaffray & Co., (iii) Piper Jaffray & Co. may compensate such Purchaser’s registered representative by reference to the dollar amount of the Notes such Purchaser is purchasing from the Initial Purchaser and (iv) it is aware that the relationships referred to above pose a potential conflict of interest.

Section 6.2. Source of Funds. No Purchaser is an “employee benefit plan” or an entity whose underlying assets are deemed to include “plan assets” by reason of the investment by an “employee benefit plan” in the entity within the meaning of 29 C.F.R. Section 2510.3–101.

As used in this Section 6.2, the term **"employee benefit plan** shall have the meaning assigned to such term in section 3 of ERISA.

Section 7. Information as to Company.

Section 7.1. Financial and Business Information. The Company shall deliver to each Purchaser, and to each holder and Beneficial Holder of Notes that requests it:

(a) *Quarterly Statements* — within 60 days (or such shorter period as is 15 days greater than the period applicable to the filing of the Company's Quarterly Report on Form 10–Q (the **"Form 10–Q")** with the SEC regardless of whether the Company is subject to the filing requirements thereof) after the end of each quarterly fiscal period in each fiscal year of the Company (other than the last quarterly fiscal period of each such fiscal year), duplicate copies of,

(i) a consolidated balance sheet of the Company and its Subsidiaries as at the end of such quarter, and

(ii) consolidated statements of income, changes in shareholders' equity and cash flows of the Company and its Subsidiaries, for such quarter and (in the case of the second and third quarters) for the portion of the fiscal year ending with such quarter,

setting forth in each case in comparative form the figures for the corresponding periods in the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP applicable to quarterly financial statements generally, and certified by a Senior Financial Officer as fairly presenting, in all material respects, the financial position of the companies being reported on and their results of operations and cash flows, subject to changes resulting from year–end adjustments, *provided* that delivery within the time period specified above of copies of the Company's Form 10–Q prepared in compliance with the requirements therefor and filed with the SEC shall be deemed to satisfy the requirements of this Section 7.1(a), *provided, further,* that the Company shall be deemed to have made such delivery of such Form 10–Q if it shall have timely made such Form 10–Q available on "EDGAR" and on its home page on the worldwide web (at the date of this Agreement located at: http//www.piperjaffray.com) and shall have given each Purchaser prior notice of such availability on EDGAR and on its home page in connection with each delivery (such availability and notice thereof being referred to as **"Electronic Delivery");**

(b) *Annual Statements* — within 105 days (or such shorter period as is 15 days greater than the period applicable to the filing of the Company's Annual Report on Form 10–K (the **"Form 10–K")** with the SEC regardless of whether the Company is subject to the filing requirements thereof) after the end of each fiscal year of the Company, duplicate copies of

(i) a consolidated balance sheet of the Company and its Subsidiaries as at the end of such year, and

(ii) consolidated statements of income, changes in shareholders' equity and cash flows of the Company and its Subsidiaries for such year, setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP, and accompanied by

(A) an opinion thereon of independent public accountants of recognized national standing, which opinion shall state that such financial statements present fairly, in all material respects, the financial position of the companies being reported upon and their results of operations and cash flows and have been prepared in conformity with GAAP, and that the examination of such accountants in connection with such financial statements has been made in accordance with generally accepted auditing standards, and that such audit provides a reasonable basis for such opinion in the circumstances, and

(B) a certificate of such accountants stating that they have reviewed this Agreement and stating further whether, in making their audit, they have become aware of any condition or event that then constitutes a Default or an Event of Default, and, if they are aware that any such condition or event then exists, specifying the nature and period of the existence thereof (it being understood that such accountants shall not be liable, directly or indirectly, for any failure to obtain knowledge of any Default or Event of Default unless such accountants should have obtained knowledge thereof in making an audit in accordance with generally accepted auditing standards or did not make such an audit),

provided that the delivery within the time period specified above of the Company's Form 10–K for such fiscal year (together with the Company's annual report to shareholders, if any, prepared pursuant to Rule 14a–3 under the Exchange Act) prepared in accordance with the requirements therefor and filed with the SEC, together with the accountant's certificate described in clause (B) above (the **"Accountants' Certificate"**), shall be deemed to satisfy the requirements of this Section 7.1(b), *provided, further,* that the Company shall be deemed to have made such delivery of such Form 10–K if it shall have timely made Electronic Delivery thereof, in which event the Company shall separately deliver, concurrently with such Electronic Delivery, the Accountants' Certificate;

(c) *SEC and Other Reports* — promptly upon their becoming available, one copy of (i) each financial statement, report, notice or proxy statement sent by the Company or any Subsidiary to its principal lending banks as a whole (excluding information sent to such banks in the ordinary course of administration of a bank facility, such as information relating to pricing and borrowing availability) or to its public securities holders generally, and (ii) each regular or periodic report, each registration

statement (without exhibits except as expressly requested by such Purchaser, holder or Beneficial Holder of Notes), and each prospectus and all amendments thereto filed by the Company or any Subsidiary with the SEC and of all press releases and other statements made available generally by the Company or any Subsidiary to the public concerning developments that are Material; provided, that the Company shall be deemed to have made such delivery if it shall timely have made Electronic Delivery thereof;

(d) *Notice of Default or Event of Default* — promptly, and in any event within five days after a Responsible Officer becoming aware of the existence of any Default or Event of Default or that any Person has given any notice or taken any action with respect to a claimed default hereunder or that any Person has given any notice or taken any action with respect to a claimed default of the type referred to in Section 11(f), a written notice specifying the nature and period of existence thereof and what action the Company is taking or proposes to take with respect thereto;

(e) *ERISA Matters* — promptly, and in any event within five days after a Responsible Officer becoming aware of any of the following, a written notice setting forth the nature thereof and the action, if any, that the Company or an ERISA Affiliate proposes to take with respect thereto:

(i) with respect to any Plan, any reportable event, as defined in section 4043(c) of ERISA and the regulations thereunder, for which notice thereof has not been waived pursuant to such regulations as in effect on the date hereof; or

(ii) the taking by the PBGC of steps to institute, or the threatening by the PBGC of the institution of, proceedings under section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan, or the receipt by the Company or any ERISA Affiliate of a notice from a Multi–employer Plan that such action has been taken by the PBGC with respect to such Multi–employer Plan; or

(iii) any event, transaction or condition that could result in the incurrence of any liability by the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to the Plans, or in the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or such penalty or excise tax provisions, if such liability or Lien, taken together with any other such liabilities or Liens then existing, could reasonably be expected to have a Material Adverse Effect;

(f) *Notices from Governmental Authority* — promptly, and in any event within 30 days of receipt thereof, copies of any publicly available notice to the Company or any Subsidiary from any Federal or state Governmental Authority relating to any order, ruling, statute or other law or regulation that could reasonably be expected to have a Material Adverse Effect; and

(g) *Requested Information* — with reasonable promptness, such other publicly available data and information relating to the business, operations, affairs, financial condition, assets or properties of the Company or any of its Subsidiaries (including, but without limitation, actual copies of the Company's Form 10–Q and Form 10–K) or relating to the ability of the Company to perform its obligations hereunder and under the Notes as from time to time may be reasonably requested by such Purchaser, holder or Beneficial Holder of Notes or such information regarding the Company required to satisfy the requirements of Rule 144A in connection with any contemplated transfer of the Notes.

Section 7.2. Officer's Certificate. Each set of financial statements delivered to a Purchaser, holder or Beneficial Holder of Notes pursuant to Section 7.1(a) or Section 7.1(b) shall be accompanied by a certificate of a Senior Financial Officer setting forth (which, in the case of Electronic Delivery of any such financial statements, shall be by separate concurrent delivery of such certificate to each holder of Notes):

(a) *Covenant Compliance* — the information (including detailed calculations) required in order to establish whether the Company was in compliance with the requirements of Section 9.7 through Section 9.10, inclusive, during the quarterly or annual period covered by the statements then being furnished (including with respect to each such Section, where applicable, the calculations of the maximum or minimum amount, ratio or percentage, as the case may be, permissible under the terms of such Sections, and the calculation of the amount, ratio or percentage then in existence); and

(b) *Event of Default* — a statement that such Senior Financial Officer has reviewed the relevant terms hereof and has made, or caused to be made, under his or her supervision, a review of the transactions and conditions of the Company and its Subsidiaries from the beginning of the quarterly or annual period covered by the statements then being furnished to the date of the certificate and that such review shall not have disclosed the existence during such period of any condition or event that constitutes a Default or an Event of Default or, if any such condition or event existed or exists (including, without limitation, any such event or condition resulting from the failure of the Company or any Subsidiary to comply with any Environmental Law), specifying the nature and period of existence thereof and what action the Company shall have taken or proposes to take with respect thereto.

Section 7.3. Visitation. The Company shall permit the representatives of each Purchaser, holder and Beneficial Holder of Notes:

(a) *No Default* — if no Default or Event of Default then exists, at the expense of such Purchaser, holder or Beneficial Holder of Notes and upon reasonable prior notice to the Company, to visit the principal executive office of the Company, to discuss the affairs, finances and accounts of the Company and its Subsidiaries with the Company's officers, and (with the consent of the Company, which consent will not be unreasonably withheld) its independent public accountants, and (with the consent of the Company, which consent will not be unreasonably withheld) to visit the other offices and properties

of the Company and each Subsidiary, all at such reasonable times and as often as may be reasonably requested in writing; and

(b) *Default* — if a Default or Event of Default then exists, at the expense of the Company to visit and inspect any of the offices or properties of the Company or any Subsidiary, to examine all their respective books of account, records, reports and other papers, to make copies and extracts therefrom, and to discuss their respective affairs, finances and accounts with their respective officers and independent public accountants (and by this provision the Company authorizes said accountants to discuss the affairs, finances and accounts of the Company and its Subsidiaries), all at such times and as often as may be requested.

In connection with the exercise by a Purchaser, holder or Beneficial Holder of Notes of any rights under this Section 7.3, the Company may require such Purchaser, holder or Beneficial Holder of Notes to execute a confidentiality agreement containing customary terms.

Section 8. Payment and Prepayment of the Notes.

Section 8.1. Maturity. As provided therein, the entire unpaid principal balance of the Notes shall be due and payable on the stated maturity date thereof. Except as provided in Section 8.5, the Notes are not prepayable, in whole or in part.

Section 8.2. Allocation of Partial Prepayments. In the case of each partial prepayment of the Notes, the principal amount of the Notes to be prepaid shall be allocated among all of the Notes at the time outstanding in proportion, as nearly as practicable, to the respective unpaid principal amounts thereof not theretofore called for prepayment.

Section 8.3. Maturity; Surrender, Etc. In the case of each prepayment of Notes pursuant to this Section 8, the principal amount of each Note to be prepaid shall mature and become due and payable on the date fixed for such prepayment (which shall be a Business Day), together with interest on such principal amount accrued to such date. From and after such date, unless the Company shall fail to pay such principal amount when so due and payable, together with the interest as aforesaid, interest on such principal amount shall cease to accrue. Any Note paid or prepaid in full shall be surrendered to the Company and cancelled and shall not be reissued, and no Note shall be issued in lieu of any prepaid principal amount of any Note.

Section 8.4. Purchase of Notes. The Company will not and will not permit any Affiliate to purchase, redeem, prepay or otherwise acquire, directly or indirectly, any of the outstanding Notes except upon the payment or prepayment of the Notes in accordance with the terms of this Agreement and the Notes. The Company will promptly cancel all Notes acquired by it or any Affiliate pursuant to any payment or prepayment of Notes pursuant to any provision of this Agreement and no Notes may be issued in substitution or exchange for any such Notes.

Section 8.5. Change in Control.

(a) *Notice of Change in Control or Control Event.* The Company will, within 15 Business Days after any Responsible Officer has knowledge of the occurrence of any Change in Control or Control Event, give written notice of such Change in Control or Control Event to each holder of Notes *unless* notice in respect of such Change in Control (or the Change in Control contemplated by such Control Event) shall have been given pursuant to subparagraph (b) of this Section 8.5. If a Change in Control has occurred, such notice shall contain and constitute an offer to prepay the Notes as described in subparagraph (c) of this Section 8.5 and shall be accompanied by the certificate described in subparagraph (h) of this Section 8.5.

(b) *Condition to Company Action.* The Company will not take any action that consummates or finalizes a Change in Control unless (i) at least 15 Business Days prior to such action it shall have given to each holder of Notes written notice containing and constituting an offer to prepay Notes as described in subparagraph (c) of this Section 8.5 or an election to prepay the Notes as described in subparagraph (e) of this Section 8.5, accompanied by the certificate described in subparagraph (h) of this Section 8.5, and (ii) contemporaneously with such action, it prepays all Notes required to be prepaid in accordance with this Section 8.5.

(c) *Offer to Prepay Notes.* The offer to prepay Notes contemplated by subparagraphs (a) and (b) of this Section 8.5 shall be an offer to prepay, in accordance with and subject to this Section 8.5, all, but not less than all, the Notes held by each holder and Beneficial Holder of Notes on a date specified in such offer (the *"Proposed Prepayment Date").* If such Proposed Prepayment Date is in connection with an offer contemplated by subparagraph (a) of this Section 8.5, such date shall be not less than 20 days and not more than 30 days after the date of such offer (if the Proposed Prepayment Date shall not be specified in such offer, the Proposed Prepayment Date shall be the 20th day after the date of such offer).

(d) *Acceptance; Rejection.* A holder or Beneficial Holder of Notes may accept or reject the offer to prepay made pursuant to this Section 8.5 by causing a notice of such acceptance or rejection to be delivered to the Company at least 5 Business Days prior to the Proposed Prepayment Date. A failure by a holder or Beneficial Holder of Notes to respond to an offer to prepay made pursuant to this Section 8.5 shall be deemed to constitute a rejection of such offer by such holder or Beneficial Holder of Notes.

(e) *Voluntary Prepayment.* The Company may, at its option, elect to prepay the Notes in whole, but not in part, upon the occurrence of a Change of Control.

(f) *Prepayment.* Prepayment of the Notes to be prepaid pursuant to this Section 8.5 shall be at 101% of the principal amount of such Notes, together with interest on such Notes accrued to the date of prepayment. The prepayment shall be made on the Proposed Prepayment Date except as provided in subparagraph (g) of this Section 8.5.

(g) *Deferral Pending Change in Control.* The obligation of the Company to prepay Notes pursuant to the offers required by subparagraph (b) and accepted in accordance with subparagraph (d) of this Section 8.5, or an election by the Company pursuant to subparagraph (e) of this Section 8.5, is subject to the occurrence of the Change in Control in respect of which such offers and acceptances, or election, shall have been made. In the event that such Change in

Control does not occur on the Proposed Prepayment Date in respect thereof (or any date specified in the election by the Company pursuant to subparagraph (e) of this Section 8.5), the prepayment shall be deferred until and shall be made on the date on which such Change in Control occurs. The Company shall keep each holder of Notes reasonably and timely informed of (i) any such deferral of the date of prepayment, (ii) the date on which such Change in Control and the prepayment are expected to occur, and (iii) any determination by the Company that efforts to effect such Change in Control have ceased or been abandoned (in which case the offers and acceptances, or election by the Company to prepay, made pursuant to this Section 8.5 in respect of such Change in Control shall be deemed rescinded).

(h) *Officer's Certificate.* Each offer or election to prepay the Notes pursuant to this Section 8.5 shall be accompanied by **a** certificate, executed by a Senior Financial Officer of the Company and dated the date of such offer or election, specifying: (i) the Proposed Prepayment Date; (ii) that such offer or election is made pursuant to this Section 8.5; (iii) the principal amount of each Note offered or elected to be prepaid; (iv) the interest that would be due on each Note offered or elected to be prepaid, accrued to the Proposed Prepayment Date; (v) that the conditions of this Section 8.5 have been fulfilled; and (vi) in reasonable detail, the nature and date or proposed date of the Change in Control.

(i) *"Change in Control" Defined. "Change in Control"* is defined in Schedule B.

(j) *"Control Event" Defined. "Control Event"* means:

(i) the execution by the Company or any of its Subsidiaries or Affiliates of any agreement or letter of intent with respect to any proposed transaction or event or series of transactions or events which, individually or in the aggregate, may reasonably be expected to result in a Change in Control, or

(ii) the execution of any written agreement which, when fully performed by the parties thereto, would result in a Change in Control.

Section 9. Affirmative Covenants.

The Company covenants that so long as any of the Notes are outstanding:

Section 9.1. Compliance with Law. Without limiting Section 10.4, the Company will, and will cause each of its Subsidiaries to, comply with all laws, ordinances or governmental rules or regulations to which each of them is subject, including, without limitation, ERISA, the USA Patriot Act and Environmental Laws, and will obtain and maintain in effect all licenses, certificates, permits, franchises and other governmental authorizations necessary to the ownership of their respective properties or to the conduct of their respective businesses, in each case to the extent necessary to ensure that non−compliance with such laws, ordinances or governmental rules or regulations or failures to obtain or maintain in effect such licenses, certificates, permits, franchises and other governmental authorizations could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

Section 9.2. Insurance. The Company will, and will cause each of its Subsidiaries to, maintain, with financially sound and reputable insurers, insurance with respect to their respective properties and businesses against such casualties and contingencies, of such types, on such terms and in such amounts (including deductibles, co–insurance and self–insurance, if adequate reserves are maintained with respect thereto) as is customary in the case of entities of established reputations engaged in the same or a similar business and similarly situated.

Section 9.3. Maintenance of Properties. The Company will, and will cause each of its Subsidiaries to, maintain and keep, or cause to be maintained and kept, their respective properties in good repair, working order and condition (other than ordinary wear and tear), so that the business carried on in connection therewith may be properly conducted at all times, *provided* that this Section shall not prevent the Company or any Subsidiary from discontinuing the operation and the maintenance of any of its properties if such discontinuance is desirable in the conduct of its business and the Company has concluded that such discontinuance could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

Section 9.4. Payment of Taxes and Claims. The Company will, and will cause each of its Subsidiaries to, file all tax returns required to be filed in any jurisdiction and to pay and discharge all taxes shown to be due and payable on such returns and all other taxes, assessments, governmental charges, or levies imposed on them or any of their properties, assets, income or franchises, to the extent the same have become due and payable and before they have become delinquent and all claims for which sums have become due and payable that have or might become a Lien on properties or assets of the Company or any Subsidiary, *provided* that neither the Company nor any Subsidiary need pay any such tax, assessment, charge, levy or claim if (i) the amount, applicability or validity thereof is contested by the Company or such Subsidiary on a timely basis in good faith and in appropriate proceedings, and the Company or a Subsidiary has established adequate reserves therefor in accordance with GAAP on the books of the Company or such Subsidiary or (ii) the nonpayment of all such taxes, assessments, charges, levies and claims in the aggregate could not reasonably be expected to have a Material Adverse Effect.

Section 9.5. Corporate Existence, Etc. Subject to Section 10.2, the Company will at all times preserve and keep in full force and effect its corporate existence. Subject to Section 10.2, the Company will at all times preserve and keep in full force and effect the corporate existence of each of its Subsidiaries (unless merged into the Company or a Wholly–Owned Subsidiary) and all rights and franchises of the Company and its Subsidiaries unless, in the good faith judgment of the Company, the termination of or failure to preserve and keep in full force and effect such corporate existence, right or franchise could not, individually or in the aggregate, have a Material Adverse Effect.

Section 9.6. Books and Records. The Company will, and will cause each of its Subsidiaries to, maintain proper books of record and account in conformity with GAAP and all applicable requirements of any Governmental Authority having legal or regulatory jurisdiction over the Company or such Subsidiary, as the case may be.

Section 9.7. Minimum Consolidated Net Worth. The Company will maintain, as of the end of each fiscal quarter of the Company, commencing with the fiscal quarter ending March 31, 2010, Consolidated Tangible Net Worth in an amount at least equal to the Minimum Consolidated Tangible Net Worth.

Section 9.8. Minimum Regulatory Net Capital. The Company will cause its Subsidiary, Piper Jaffray & Co., to maintain Regulatory Net Capital of at least $150,000,000.

Section 9.9. Maximum Consolidated Funded Indebtedness to Total Capitalization. The Company will maintain, as of the end of each fiscal quarter, a ratio of Consolidated Funded Indebtedness to Total Capitalization of not more than 0.20 to 1.00.

Section 9.10. Minimum Operating Cash Flow to Consolidated Fixed Charges. The Company will maintain, as of the end of each fiscal quarter, a ratio of Operating Cash Flow for the period commencing on January 1, 2010 through the end of such fiscal quarter to Consolidated Fixed Charges for the period commencing on January 1, 2010 through the end of such fiscal quarter, of at least 2.00 to 1.00.

Section 10. Negative Covenants.

The Company covenants that so long as any of the Notes are outstanding:

Section 10.1. Transactions with Affiliates. The Company will not and will not permit any Subsidiary to enter into directly or indirectly any transaction or group of related transactions (including without limitation the purchase, lease, sale or exchange of properties of any kind or the rendering of any service) with any Affiliate (other than the Company or another Subsidiary), except in the ordinary course and pursuant to the reasonable requirements of the Company's or such Subsidiary's business and upon fair and reasonable terms no less favorable to the Company or such Subsidiary than would be obtainable in a comparable arm's–length transaction with a Person not an Affiliate and the Company delivers to each holder of Notes within 10 days after any such transaction or group of related transactions involving aggregate consideration in excess of $10,000,000, (a) a resolution of the board of directors of the Company set forth in an Officers' Certificate certifying that such transaction or group of related transactions complies with this Section 10.1 and that such transaction or group of related transactions has been approved by a majority of the members of the board of directors of the Company and, (b) an opinion as to the fairness to the Company or such Subsidiary of such transaction or group of related transactions from a financial point of view issued by an accounting, appraisal or investment banking firm of national standing.

Section 10.2. Merger, Consolidation, Etc. The Company will not consolidate with or merge with any other Person or convey, transfer or lease all or substantially all of its assets in a single transaction or series of transactions to any Person unless:

(a) the successor formed by such consolidation or the survivor of such merger or the Person that acquires by conveyance, transfer or lease all or substantially all of the assets of the Company as an entirety, as the case may be, shall be a solvent corporation or

limited liability company organized and existing under the laws of the United States or any State thereof (including the District of Columbia), and, if the Company is not such corporation or limited liability company, (i) such corporation or limited liability company shall have executed and delivered to each holder of any Notes its assumption of the due and punctual performance and observance of each covenant and condition of this Agreement and the Notes and (ii) such corporation or limited liability company shall have caused to be delivered to each holder of any Notes an opinion of nationally recognized independent counsel, or other independent counsel reasonably satisfactory to the Required Holders, to the effect that all agreements or instruments effecting such assumption are enforceable in accordance with their terms and comply with the terms hereof; and

(b) immediately before and immediately after giving effect to such transaction, no Default or Event of Default shall have occurred and be continuing.

No such conveyance, transfer or lease of substantially all of the assets of the Company shall have the effect of releasing the Company or any successor corporation or limited liability company that shall theretofore have become such in the manner prescribed in this Section 10.2 from its liability under this Agreement or the Notes.

Section 10.3. Line of Business. The Company will not and will not permit any Subsidiary to engage in any business if, as a result, the general nature of the business in which the Company and its Subsidiaries, taken as a whole, would then be engaged would be substantially changed from the general nature of the business in which the Company and its Subsidiaries, taken as a whole, are engaged on the date of this Agreement.

Section 10.4. Terrorism Sanctions Regulations. The Company will not and will not permit any Subsidiary to (a) become a Person described or designated in the Specially Designated Nationals and Blocked Persons List of the Office of Foreign Assets Control or in Section 1 of the Anti–Terrorism Order or (b) engage in any dealings or transactions with any such Person.

Section 10.5 Restricted Payments. After the occurrence and during the continuation of an Event of Default, the Company will not make any distribution, payment on account of, or set apart assets for, a sinking or other analogous fund for the purchase, redemption, retirement or other acquisition of any equity or ownership interest of the Company, whether now or hereafter outstanding, or make any other distribution in respect thereof, either directly or indirectly, whether in cash or property or in obligations of the Company or any Subsidiary. The Company will not make any payment on any Indebtedness of the Company that is subordinated in right of payment to the Notes that is prohibited by the applicable subordination provisions.

Section 11. Events of Default.

An **"Event of Default"** shall exist if any of the following conditions or events shall occur and be continuing:

(a) the Company defaults in the payment of any principal on any Note when the same becomes due and payable, whether at maturity or at a date fixed for prepayment or by declaration or otherwise; or

(b) the Company defaults in the payment of any interest on any Note for more than five Business Days after the same becomes due and payable; or

(c) the Company defaults in the performance of or compliance with any term contained in Section 7.1(d), Section 8.5(a), Sections 9.7, 9.9 or 9.10, or Sections 10.1 through 10.4; or

(d) the Company defaults in the performance of or compliance with any term contained herein (other than those referred to in Sections 11 (a), (b) and (c)) and such default is not remedied within 30 days after the earlier of (i) a Responsible Officer obtaining actual knowledge of such default and (ii) the Company receiving written notice of such default from any holder of a Note (any such written notice to be identified as a "notice of default" and to refer specifically to this Section 11(d)); or

(e) any representation or warranty made in writing by or on behalf of the Company or by any officer of the Company in this Agreement or in any writing furnished in connection with the transactions contemplated hereby proves to have been false or incorrect in any material respect on the date as of which made; or

(f) (i) the Company or any Subsidiary is in default (as principal or as guarantor or other surety) in the payment of any principal of or premium or make–whole amount or interest on any Indebtedness that is outstanding and has an aggregate principal amount of at least $10,000,000 beyond any period of grace provided with respect thereto, or (ii) the Company or any Subsidiary is in default in the performance of or compliance with any term of any evidence of any Indebtedness that has an aggregate outstanding principal amount of at least $10,000,000 or of any mortgage, indenture or other agreement relating thereto or any other condition exists, and as a consequence of such default or condition such Indebtedness has become, or has been declared (or one or more Persons are entitled to declare such Indebtedness to be), due and payable before its stated maturity or before its regularly scheduled dates of payment, or (iii) as a consequence of the occurrence or continuation of any event or condition (other than the passage of time or the right of the holder of Indebtedness to convert such Indebtedness into equity interests), (x) the Company or any Subsidiary has become obligated to purchase or repay Indebtedness in an aggregate outstanding principal amount of at least $10,000,000 before its regular maturity or before its regularly scheduled dates of payment, or (y) one or more Persons have the right to require the Company or any Subsidiary so to purchase or repay such Indebtedness; or

(g) the Company or any Subsidiary (i) is generally not paying, or admits in writing its inability to pay, its debts as they become due, (ii) files, or consents by answer or otherwise to the filing against it of, a petition for relief or reorganization or arrangement or any other petition in bankruptcy, for liquidation or to take advantage of

any bankruptcy, insolvency, reorganization, moratorium or other similar law of any jurisdiction, (iii) makes an assignment for the benefit of its creditors, (iv) consents to the appointment of a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, (v) is adjudicated as insolvent or to be liquidated, or (vi) takes corporate action for the purpose of any of the foregoing; or

(h) a court or Governmental Authority of competent jurisdiction enters an order appointing, without consent by the Company or any of its Subsidiaries, a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, or constituting an order for relief or approving a petition for relief or reorganization or any other petition in bankruptcy or for liquidation or to take advantage of any bankruptcy or insolvency law of any jurisdiction, or ordering the dissolution, winding–up or liquidation of the Company or any of its Subsidiaries, or any such petition shall be filed against the Company or any of its Subsidiaries and such petition shall not be dismissed within 60 days; or

(i) a final judgment or judgments for the payment of money aggregating in excess of $10,000,000 are rendered against one or more of the Company and its Subsidiaries and which judgments are not, within 60 days after entry thereof, bonded, discharged or stayed pending appeal, or are not discharged within 60 days after the expiration of such stay; or

(j) if (i) any Plan shall fail to satisfy the minimum funding standards of ERISA or the Code for any plan year or part thereof or a waiver of such standards or extension of any amortization period is sought or granted under section 412 of the Code, (ii) a notice of intent to terminate any Plan shall have been or is reasonably expected to be filed with the PBGC or the PBGC shall have instituted proceedings under ERISA section 4042 to terminate or appoint a trustee to administer any Plan or the PBGC shall have notified the Company or any ERISA Affiliate that a Plan may become a subject of any such proceedings, (iii) the aggregate "amount of unfunded benefit liabilities" (within the meaning of section 4001(a)(18) of ERISA) under all Plans, determined in accordance with Title IV of ERISA, shall exceed $10,000,000, (iv) the Company or any ERISA Affiliate shall have incurred or is reasonably expected to incur any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to the Plans, (v) the Company or any ERISA Affiliate withdraws from any Multiemployer Plan, or (vi) the Company or any Subsidiary establishes or amends any employee welfare benefit plan that provides post–employment welfare benefits in a manner that would increase the liability of the Company or any Subsidiary thereunder; and any such event or events described in clauses (i) through (vi) above, either individually or together with any other such event or events, could reasonably be expected to have a Material Adverse Effect.

As used in Section 11(j), the terms **"employee benefit plan"** and **"employee welfare benefit plan"** shall have the respective meanings assigned to such terms in section 3 of ERISA.

Section 12. Remedies on Default, Etc.

Section 12.1. Acceleration. (a) If an Event of Default with respect to the Company described in Section 11(g) or (h) (other than an Event of Default described in clause (i) of Section 11(g) or described in clause (vi) of Section 11(g) by virtue of the fact that such clause encompasses clause (i) of Section 11(g)) has occurred, all the Notes then outstanding shall automatically become immediately due and payable.

(b) If any other Event of Default has occurred and is continuing, any holder or holders of more than 50% in principal amount of the Notes at the time outstanding may at any time at its or their option, by notice or notices to the Company, declare all the Notes then outstanding to be immediately due and payable.

(c) If any Event of Default described in Section 11(a) or (b) has occurred and is continuing, any holder or holders of Notes at the time outstanding affected by such Event of Default may at any time, at its or their option, by notice or notices to the Company, declare all the Notes held by it or them to be immediately due and payable.

Upon any Notes becoming due and payable under this Section 12.1, whether automatically or by declaration, such Notes will forthwith mature and the entire unpaid principal amount of such Notes, plus all accrued and unpaid interest thereon, shall all be immediately due and payable, in each and every case without presentment, demand, protest or further notice, all of which are hereby waived.

Section 12.2. Other Remedies. If any Default or Event of Default has occurred and is continuing, and irrespective of whether any Notes have become or have been declared immediately due and payable under Section 12.1, the holder or Beneficial Holder of any Note at the time outstanding may proceed to protect and enforce the rights of such holder or Beneficial Holder by an action at law, suit in equity or other appropriate proceeding, whether for the specific performance of any agreement contained herein or in any Note, or for an injunction against a violation of any of the terms hereof or thereof, or in aid of the exercise of any power granted hereby or thereby or by law or otherwise.

Section 12.3. Rescission. At any time after any Notes have been declared due and payable pursuant to Section 12.1(b) or (c), the holders of not less than 51% in principal amount of the Notes then outstanding, by written notice to the Company, may rescind and annul any such declaration and its consequences if (a) the Company has paid all overdue interest on the Notes, all principal of any Notes that are due and payable and are unpaid other than by reason of such declaration, and all interest on such overdue principal and (to the extent permitted by applicable law) any overdue interest in respect of the Notes, (b) neither the Company nor any other Person shall have paid any amounts which have become due solely by reason of such declaration, (c) all Events of Default and Defaults, other than non–payment of amounts that have become due solely by reason of such declaration, have been cured or have been waived pursuant to Section 17, and (d) no judgment or decree has been entered for the payment of any monies due pursuant hereto or to the Notes. No rescission and annulment under this Section 12.3 will extend to or affect any subsequent Event of Default or Default or impair any right consequent thereon.

Section 12.4. No Waivers or Election of Remedies, Expenses, Etc. No course of dealing and no delay on the part of any holder or Beneficial Holder of any Note in exercising any right, power or remedy shall operate as a waiver thereof or otherwise prejudice such holder's or Beneficial Holder's rights, powers or remedies. No right, power or remedy conferred by this Agreement or by any Note upon any holder or Beneficial Holder thereof shall be exclusive of any other right, power or remedy referred to herein or therein or now or hereafter available at law, in equity, by statute or otherwise. Without limiting the obligations of the Company under Section 15, the Company will pay to the holder or Beneficial Holder of each Note on demand such further amount as shall be sufficient to cover all costs and expenses of such holder or Beneficial Holder incurred in any enforcement or collection under this Section 12, including, without limitation, reasonable attorneys' fees, expenses and disbursements.

Section 13. Registration; Exchange; Substitution of Notes.

Section 13.1. Registration of Notes. The Notes will be registered in the name of Cede & Co., as nominee for DTC. If Notes are taken out of the DTC book–entry system and issued in definitive form, the Company shall keep at its principal executive office a register for the registration and registration of transfers of Notes. The name and address of each holder of one or more Notes, each transfer thereof and the name and address of each transferee of one or more Notes shall be registered in such register. Prior to due presentment for registration of transfer, the Person in whose name any Note shall be registered shall be deemed and treated as the owner and holder thereof for all purposes hereof, and the Company shall not be affected by any notice or knowledge to the contrary. The Company shall give to any holder of a Note promptly upon request therefor, a complete and correct copy of the names and addresses of all registered holders of Notes.

Section 13.2. Transfer and Exchange of Notes. If Notes are taken out of the DTC book–entry system and issued in definitive form, upon surrender of any Note to the Company at the address and to the attention of the designated officer (all as specified in Section 18(iii)), for registration of transfer or exchange (and in the case of a surrender for registration of transfer accompanied by a written instrument of transfer duly executed by the registered holder of such Note or such holder's attorney duly authorized in writing and accompanied by the relevant name, address and other information for notices of each transferee of such Note or part thereof), within ten Business Days thereafter, the Company shall execute and deliver, at the Company's expense (except as provided below), one or more new Notes (as requested by the holder thereof) in exchange therefor, in an aggregate principal amount equal to the unpaid principal amount of the surrendered Note. Each such new Note shall be payable to such Person as such holder may request and shall be substantially in the form of Exhibit A–1. Each such new Note shall be dated and bear interest from the date to which interest shall have been paid on the surrendered Note or dated the date of the surrendered Note if no interest shall have been paid thereon. The Company may require payment of a sum sufficient to cover any stamp tax or governmental charge imposed in respect of any such transfer of Notes. Notes shall not be transferred in denominations of less than $500,000, provided that if necessary to enable the registration of transfer by a holder of its entire holding of Notes, one Note may be in a denomination of less than $500,000. Any transferee, by its acceptance of a Note registered in its name (or the name of its nominee), shall be deemed to have made the representations set forth in Sections 6.1 and 6.2.

(b) The Company shall deliver a single permanent global Note in registered form, substantially in the form set forth in Exhibit A–2 (the **“Global Notes”),** registered in the name of Cede & Co., the nominee of DTC, duly executed by the Company. The Company will require that all resales be made in compliance with the provisions of Rule 144A to Qualified Institutional Buyers who have advised the Company in writing that they are purchasing the Note for their own account or accounts with respect to which such Qualified Institutional Buyer exercises sole investment discretion and that such Qualified Institutional Buyer is aware that the sale to it is being made in reliance on Rule 144A and acknowledges that it has received such information regarding the Company as it has requested pursuant to Rule 144A or has determined not to request such information and that it is aware that Piper Jaffray & Co. is relying upon its foregoing representations in order to claim the exemption from registration provided by Rule 144A. Any such transferee shall be deemed to have also made the representations set forth in Sections 6.1 and 6.2.

(c) If a beneficial interest in the Global Notes is proposed to be transferred, the transfer of such beneficial interest may be effected only through the book–entry system maintained by DTC.

(d) The Notes have not been registered under the Securities Act or under the securities laws of any state and may not be transferred or resold unless registered under the Securities Act and applicable state securities laws or unless an exemption from such requirement is available. Upon the registration of transfer, exchange or replacement of Notes, the Company shall deliver only Notes that bear a legend to such effect.

Section 13.3. Replacement of Notes. If Notes are taken out of the book–entry system of DTC and issued in definitive form, upon receipt by the Company at the address and to the attention of the designated officer (all as specified in Section 18(iii)) of evidence reasonably satisfactory to it of the ownership of and the loss, theft, destruction or mutilation of any Note (which evidence shall be notice from such holder of such ownership and such loss, theft, destruction or mutilation), and

(a) in the case of loss, theft or destruction, of indemnity reasonably satisfactory to it (provided that if the holder of such Note is, or is a nominee for, an original Purchaser or another holder of a Note with a minimum net worth of at least $100,000,000 or a Qualified Institutional Buyer, such Person’s own unsecured agreement of indemnity shall be deemed to be satisfactory), or

(b) in the case of mutilation, upon surrender and cancellation thereof,

within ten Business Days thereafter, the Company at its own expense shall execute and deliver, in lieu thereof, a new Note, dated and bearing interest from the date to which interest shall have been paid on such lost, stolen, destroyed or mutilated Note or dated the date of such lost, stolen, destroyed or mutilated Note if no interest shall have been paid thereon.

Section 13.4. Book–Entry Provisions for Global Notes. (a) The Notes issued to the Purchasers hereunder shall be in the form of a Global Note which initially shall be registered in

the name of Cede & Co., the nominee of DTC. The ownership interests of each beneficial holder (a **"Beneficial Holder"**) of a Global Note will be recorded on DTC's records and are expected to receive written confirmations from DTC of their transaction from the direct or indirect participants in DTC (**"Agent Members"**). Agent Members shall have no rights under this Agreement with respect to any Global Notes held on their behalf by DTC, or under any Global Note, and DTC may be treated by the Company and any agent of the Company as the absolute owner of each Global Note for all purposes whatsoever; provided, that each Beneficial Holder shall have the rights expressly granted to Beneficial Holders hereunder, subject to written notice to the Company from such Beneficial Holder confirming its status as a Beneficial Holder and disclosing the principal amount of its beneficial interest in the Global Note. Notwithstanding the foregoing, nothing herein shall prevent the Company or any agent of the Company from giving effect to any written certification, proxy or other authorization furnished by DTC or impair, as between DTC and its Agent Members, the operation of customary practices governing the exercise of the rights of a Beneficial Holder of any Note.

(b) Transfers of Global Notes shall be limited to transfers in whole, but not in part, to DTC, its successors or nominees. Interests of Beneficial Holders in any Global Note may be transferred or exchanged for physical Notes in accordance with the rules and procedures of DTC and the provisions of Section 13.2.

(c) In connection with any transfer or exchange of a portion of the beneficial interest in any Global Notes to Beneficial Holders pursuant to clause (b) above, DTC shall reflect on its books and record the date and a decrease in the principal amount of the beneficial interest in such Global Note to be transferred, and the Company shall execute, one or more Notes of like tenor and amount.

(d) In connection with the transfer of interests of Beneficial Holders in Global Notes for physical Notes pursuant to clause (b) above, the Global Notes shall be deemed to be surrendered to the Company for cancellation, and the Company shall execute, to each such Beneficial Holder identified by DTC in exchange for its beneficial interest in such Global Notes, an equal aggregate principal amount of physical Notes of authorized denominations.

(e) All transfers and exchanges of Global Notes or beneficial interests therein shall be effected through DTC, in accordance with this Agreement (including applicable restrictions on transfer set forth herein) and the procedures of DTC. A transferor of a beneficial interest in a Global Note shall deliver a written order given in accordance with DTC's procedures containing information regarding the participant account of DTC to be credited with a beneficial interest in such Global Note and such account shall be credited in accordance with such order with a beneficial interest in the Global Note and the account of the person making the transfer shall be debited by an amount equal to the beneficial interest in the Global Note being transferred. Any transferee of a beneficial interest in a Global Note shall be deemed to have made the representations set forth in Sections 6.1 and 6.2.

(f) The holder of a Global Note may grant proxies and otherwise authorize any person, including Agent Members and persons that may hold interests through Agent Members, to take any action which a holder of a Note is entitled to take under this Agreement.

Section 14. Payments on Notes.

Section 14.1. Place of Payment. Subject to Section 14.2, payments of principal and interest becoming due and payable on the Notes shall be made in Chicago, Illinois at the corporate trust office of The Bank of New York Mellon Trust Company, N.A., as paying agent for further payment to DTC and DTC shall make payments to its direct participants for credit to the beneficial owners through DTC's typical payment procedures.

Section 14.2. Home Office Payment. If Notes are taken out of the book–entry system of DTC and issued in definitive form, then so long as any Purchaser or its nominee shall be the holder of the Note, and notwithstanding anything contained in Section 14.1 or in such Note to the contrary, the Company will pay all sums becoming due on such Note for principal and interest by the method and at the address specified for such purpose below such Purchaser's name in Schedule A, or by such other method or at such other address as such Purchaser shall have from time to time specified to the Company in writing for such purpose, without the presentation or surrender of such Note or the making of any notation thereon, except that upon written request of the Company made concurrently with or reasonably promptly after payment or prepayment in full of any Note, such Purchaser shall surrender such Note for cancellation, reasonably promptly after any such request, to the Company at its principal executive office or at the place of payment most recently designated by the Company pursuant to Section 14.1. Prior to any sale or other disposition of any Note held by a Purchaser or its nominee, such Purchaser will, at its election, either endorse thereon the amount of principal paid thereon and the last date to which interest has been paid thereon or surrender such Note to the Company in exchange for a new Note or Notes pursuant to Section 13.2. The Company will afford the benefits of this Section 14.2 to any Person that is the direct or indirect transferee of any Note purchased by a Purchaser under this Agreement and that has made the same agreement relating to such Note as the Purchasers have made in this Section 14.2.

Section 15. Expenses, Etc.

Section 15.1. Transaction Expenses. Whether or not the transactions contemplated hereby are consummated, the Company will pay all costs and expenses (including reasonable attorneys' fees of a special counsel and, if reasonably required by the Required Holders, local or other counsel) incurred by the Purchasers and each other holder or Beneficial Holder of a Note in connection with such transactions and in connection with any amendments, waivers or consents under or in respect of this Agreement or the Notes (whether or not such amendment, waiver or consent becomes effective), including, without limitation: (a) the costs and expenses incurred in enforcing or defending (or determining whether or how to enforce or defend) any rights under this Agreement or the Notes or in responding to any subpoena or other legal process or informal investigative demand issued in connection with this Agreement or the Notes, or by reason of being a holder or Beneficial Holder of any Note, and (b) the costs and expenses, including financial advisors' fees, incurred in connection with the insolvency or bankruptcy of the Company or any Subsidiary or in connection with any work–out or restructuring of the transactions contemplated hereby and by the Notes. The Company will pay, and will save each Purchaser and each other holder and Beneficial Holder of a Note harmless from, all claims in respect of any fees, costs or expenses, if any, of brokers and finders (other than those, if any,

retained by a Purchaser or other holder or Beneficial Holder in connection with its purchase of the Notes).

Section 15.2. Survival. The obligations of the Company under this Section 15 will survive the payment or transfer of any Note, the enforcement, amendment or waiver of any provision of this Agreement or the Notes, and the termination of this Agreement.

Section 16. Survival of Representations and Warranties; Entire Agreement.

All representations and warranties contained herein shall survive the execution and delivery of this Agreement and the Notes, the purchase or transfer by any Purchaser of any Note or portion thereof or interest therein and the payment of any Note, and may be relied upon by any subsequent holder or Beneficial Holder of a Note, regardless of any investigation made at any time by or on behalf of such Purchaser or any other holder or Beneficial Holder of a Note. All statements contained in any certificate or other instrument delivered by or on behalf of the Company pursuant to this Agreement shall be deemed representations and warranties of the Company under this Agreement. Subject to the preceding sentence, this Agreement and the Notes embody the entire agreement and understanding between each Purchaser and the Company and supersede all prior agreements and understandings relating to the subject matter hereof.

Section 17. Amendment and Waiver.

Section 17.1. Requirements. This Agreement and the Notes may be amended, and the observance of any term hereof or of the Notes may be waived (either retroactively or prospectively), with (and only with) the written consent of the Company and the Required Holders, except that no such amendment or waiver may, without the written consent of the holder of each Note at the time outstanding affected thereby, (i) subject to the provisions of Section 12 relating to acceleration or rescission, change the amount or time of any prepayment or payment of principal of, or reduce the rate or change the time of payment or method of computation of interest on the Notes, (ii) change the percentage of the principal amount of the Notes the holders of which are required to consent to any such amendment or waiver, or (iii) amend any of Sections 8, 11(a), 11(b), 12, 17 or 20.

Section 17.2. Solicitation of Holders of Notes.

(a) *Solicitation.* The Company will provide each holder of the Notes (irrespective of the amount of Notes then owned by it) with sufficient information, sufficiently far in advance of the date a decision is required, to enable such holder to make an informed and considered decision with respect to any proposed amendment, waiver or consent in respect of any of the provisions hereof or of the Notes. The Company will deliver executed or true and correct copies of each amendment, waiver or consent effected pursuant to the provisions of this Section 17 to each holder of outstanding Notes promptly following the date on which it is executed and delivered by, or receives the consent or approval of, the requisite holders of Notes.

(b) *Payment.* The Company will not directly or indirectly pay or cause to be paid any remuneration, whether by way of supplemental or additional interest, fee or otherwise, or grant

any security or provide other credit support, to any holder or Beneficial Holder of Notes as consideration for or as an inducement to the entering into by any holder or Beneficial Holder of Notes of any waiver or amendment of any of the terms and provisions hereof unless such remuneration is concurrently paid, or security is concurrently granted or other credit support concurrently provided, on the same terms, ratably to each holder or Beneficial Holder of Notes then outstanding even if such holder did not consent to such waiver or amendment.

Section 17.3. Binding Effect, etc. Any amendment or waiver consented to as provided in this Section 17 applies equally to all holders of Notes and is binding upon them and upon each future holder of any Note and upon the Company without regard to whether such Note has been marked to indicate such amendment or waiver. No such amendment or waiver will extend to or affect any obligation, covenant, agreement, Default or Event of Default not expressly amended or waived or impair any right consequent thereon. No course of dealing between the Company and the holder or Beneficial Holder of any Note nor any delay in exercising any rights hereunder or under any Note shall operate as a waiver of any rights of any holder or Beneficial Holder of such Note. As used herein, the term "this Agreement" and references thereto shall mean this Agreement as it may from time to time be amended or supplemented.

Section 17.4. Notes Held by Company, etc. Solely for the purpose of determining whether the holders of the requisite percentage of the aggregate principal amount of Notes then outstanding approved or consented to any amendment, waiver or consent to be given under this Agreement or the Notes, or have directed the taking of any action provided herein or in the Notes to be taken upon the direction of the holders of a specified percentage of the aggregate principal amount of Notes then outstanding, Notes directly or indirectly owned by the Company or any of its Affiliates shall be deemed not to be outstanding.

Section 18. Notices.

All notices and communications provided for hereunder shall be in writing and sent (a) by telecopy if the sender on the same day sends a confirming copy of such notice by a recognized overnight delivery service (charges prepaid), or (b) by registered or certified mail with return receipt requested (postage prepaid), or (c) by a recognized overnight delivery service (with charges prepaid). Any such notice must be sent:

(i) if to any Purchaser or its nominee, to such Purchaser or nominee at the address specified for such communications in Schedule A, or at such other address as such Purchaser or nominee shall have specified to the Company in writing,

(ii) if to any other holder of any Note, to such holder at such address as such other holder shall have specified to the Company in writing,

(iii) if to the Company, to the Company at its address set forth at the beginning hereof to the attention of Timothy L. Carter, or at such other address as the Company shall have specified to the holder of each Note in writing, or

(iv) if to the Initial Purchaser, at 800 Nicollet Mall, Suite 800, Minneapolis, Minnesota 55402, attention Timothy L. Carter.

Notices under this Section 18 will be deemed given only when actually received.

Section 19. Reproduction of Documents.

This Agreement and all documents relating thereto, including, without limitation, (a) consents, waivers and modifications that may hereafter be executed, (b) documents received by any Purchaser at the Closing (except the Notes themselves), and (c) financial statements, certificates and other information previously or hereafter furnished to any Purchaser, may be reproduced by such Purchaser by any photographic, photostatic, electronic, digital, or other similar process and such Purchaser may destroy any original document so reproduced. The Company agrees and stipulates that, to the extent permitted by applicable law, any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was made by such Purchaser in the regular course of business) and any enlargement, facsimile or further reproduction of such reproduction shall likewise be admissible in evidence. This Section 19 shall not prohibit the Company or any other holder or Beneficial Holder of Notes from contesting any such reproduction to the same extent that it could contest the original, or from introducing evidence to demonstrate the inaccuracy of any such reproduction.

Section 20. Reserved.

Section 21. Substitution of Purchaser.

Each Purchaser shall have the right to substitute any one of its Affiliates as the purchaser of the Notes that it has agreed to purchase hereunder, by written notice to the Company, which notice shall be signed by both such Purchaser and such Affiliate, shall contain such Affiliate's agreement to be bound by this Agreement and shall contain a confirmation by such Affiliate of the accuracy with respect to it of the representations set forth in Section 6. Upon receipt of such notice, any reference to such Purchaser in this Agreement (other than in this Section 21), shall be deemed to refer to such Affiliate in lieu of such original Purchaser. In the event that such Affiliate is so substituted as a Purchaser hereunder and such Affiliate thereafter transfers to such original Purchaser all of the Notes then held by such Affiliate, upon receipt by the Company of notice of such transfer, any reference to such Affiliate as a "Purchaser" in this Agreement (other than in this Section 21), shall no longer be deemed to refer to such Affiliate, but shall refer to the original Purchaser, and such original Purchaser shall again have all the rights of an original holder of the Notes under this Agreement.

Section 22. Miscellaneous.

Section 22.1. Successors and Assigns. All covenants and other agreements contained in this Agreement by or on behalf of any of the parties hereto bind and inure to the benefit of their respective successors and assigns (including, without limitation, any subsequent holder of a Note

and, in the case of rights expressly granted to Beneficial Holders hereunder, to any Beneficial Holder to the extent set forth herein) whether so expressed or not. Except as set forth in Section 10.2, the Company may not assign any of its rights or obligations under this Agreement or the Notes without the prior written consent of each holder of the Notes.

Section 22.2. Payments Due on Non–Business Days. Anything in this Agreement or the Notes to the contrary notwithstanding (but without limiting the requirement in Section 8.3 that the notice of any optional prepayment specify a Business Day as the date fixed for such prepayment), any payment of principal of or interest on any Note that is due on a date other than a Business Day shall be made on the next succeeding Business Day without including the additional days elapsed in the computation of the interest payable on such next succeeding Business Day; provided that if the maturity date of any Note is a date other than a Business Day, the payment otherwise due on such maturity date shall be made on the next succeeding Business Day and shall include the additional days elapsed in the computation of interest payable on such next succeeding Business Day.

Section 22.3. Accounting Terms. All accounting terms used herein which are not expressly defined in this Agreement have the meanings respectively given to them in accordance with GAAP. Except as otherwise specifically provided herein, (i) all computations made pursuant to this Agreement shall be made in accordance with GAAP, and (ii) all financial statements shall be prepared in accordance with GAAP.

Section 22.4. Severability. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall (to the full extent permitted by law) not invalidate or render unenforceable such provision in any other jurisdiction.

Section 22.5. Construction, etc. Each covenant contained herein shall be construed (absent express provision to the contrary) as being independent of each other covenant contained herein, so that compliance with any one covenant shall not (absent such an express contrary provision) be deemed to excuse compliance with any other covenant. Where any provision herein refers to action to be taken by any Person, or which such Person is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such Person.

For the avoidance of doubt, all Schedules and Exhibits attached to this Agreement shall be deemed to be a part hereof.

Section 22.6. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original but all of which together shall constitute one instrument. Each counterpart may consist of a number of copies hereof, each signed by less than all, but together signed by all, of the parties hereto.

Section 22.7. Governing Law. This Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of New

York excluding choice–of–law principles of the law of such State that would permit the application of the laws of a jurisdiction other than such State.

Section 22.8. Jurisdiction and Process; Waiver of Jury Trial. (a) The Company irrevocably submits to the non–exclusive jurisdiction of any New York State or federal court sitting in the Borough of Manhattan, The City of New York, over any suit, action or proceeding arising out of or relating to this Agreement or the Notes. To the fullest extent permitted by applicable law, the Company irrevocably waives and agrees not to assert, by way of motion, as a defense or otherwise, any claim that it is not subject to the jurisdiction of any such court, any objection that it may now or hereafter have to the laying of the venue of any such suit, action or proceeding brought in any such court and any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum.

(b) The Company consents to process being served by or on behalf of any holder or Beneficial Holder of Notes in any suit, action or proceeding of the nature referred to in Section 22.8(a) by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, return receipt requested, to it at its address specified in Section 18 or at such other address of which such holder shall then have been notified pursuant to said Section. The Company agrees that such service upon receipt (i) shall be deemed in every respect effective service of process upon it in any such suit, action or proceeding and (ii) shall, to the fullest extent permitted by applicable law, be taken and held to be valid personal service upon and personal delivery to it. Notices hereunder shall be conclusively presumed received as evidenced by a delivery receipt furnished by the United States Postal Service or any reputable commercial delivery service.

(c) Nothing in this Section 22.8 shall affect the right of any holder or Beneficial Holder of a Note to serve process in any manner permitted by law, or limit any right that the holders of any of the Notes may have to bring proceedings against the Company in the courts of any appropriate jurisdiction or to enforce in any lawful manner a judgment obtained in one jurisdiction in any other jurisdiction.

(d) The parties hereto hereby waive trial by jury in any action brought on or with respect to this Agreement, the Notes or any other document executed in connection herewith or therewith.

Section 22.9. Piper Jaffray & Co. Execution. Piper Jaffray & Co. is a party to this Agreement solely for purpose of purchasing the Notes from the Company as Initial Purchaser and selling the Notes to the Purchasers hereunder. Piper Jaffray & Co. assumes no responsibility for any obligations, representations, warranties or covenants of the Company.

[Signature Pages Follow]

* * * * *

If you are in agreement with the foregoing, please sign the form of agreement on a counterpart of this Agreement and return it to the Company, whereupon this Agreement shall become a binding agreement between you and the Company.

Very truly yours,

Piper Jaffray Companies

By: /s/ Timothy L. Carter
Timothy L. Carter, Treasurer

[Signature Page to Note Purchase Agreement]

This Agreement is hereby
accepted and agreed to as
of the date thereof.

INITIAL PURCHASER

PIPER JAFFRAY & Co., Solely in Its Capacity As Initial Purchaser

By /s/ Mary B. Swanson

Name: Mary B. Swanson
Its: Assistant Treasurer

[Signature Page to Note Purchase Agreement]

PURCHASERS
PIMCO Funds: Global Investors Series plc Total Return Bond Fund, as Purchaser
PIMCO Funds: Global Investors Series plc StocksPLUS Fund, as Purchaser
PIMCO Funds Short−term Fund, as Purchaser
AXA Premier VIP Trust: multimanager Core Bond Portfolio, as Purchaser
AXA Premier VIP Trust: Multimanager Multi−Sector Bond Portfolio, as Purchaser
The Salvation Army, As Purchaser
PIMCO Funds: Fundamental Advantage Total Return Strategy Fund, as Purchaser
PIMCO Funds Total Return Fund, as Purchaser
By: Pacific Investment Management Company LLC, as investment advisor to each Purchaser

By /s/ Chris Dialynas

Name: Chris Dialynas
Its: Managing Director

[Signature Page to Note Purchase Agreement]

Piper Jaffray Companies
800 Nicollet Mall, Suite 800
Minneapolis, MN 55402
Information Relating to Purchasers

Name and Address of Purchaser	Principal Amount of Notes to be Purchased
PIMCO Funds: Global Investors Series plc Total Return Bond Fund	$ 36,000,000
PIMCO Funds: Global Investors Series plc StocksPLUS Fund	$ 1,700,000
PIMCO Funds Short–Term Fund	$ 35,000,000
AXA Premier VIP Trust: Multimanager Core Bond Portfolio	$ 5,000,000
AXA Premier VIP Trust: Multimanager Multi– Sector Bond Portfolio	$ 2,000,000
The Salvation Army	$ 3,000,000
PIMCO Funds: Fundamental Advantage Total Return Strategy Fund	$ 17,700,000
PIMCO Funds Total Return Fund	$ 19,600,000
Total	$ 120,000,000

All notices to be delivered to:
Pacific Investment Management Company LLC
840 Newport Center Drive, Suite 100
Newport Beach, California 92660
Tel: +1 (949) 720–6000
Fax: +1 (949) 720–1376
Attention: Chief Legal Officer

Schedule A
(to Note Purchase Agreement)

Defined Terms

As used herein, the following terms have the respective meanings set forth below or set forth in the Section hereof following such term:

"Agent Members" is defined in Section 13.4(a).

"Affiliate" means, at any time, and with respect to any Person, any other Person that at such time directly or indirectly through one or more intermediaries Controls, or is Controlled by, or is under common Control with, such first Person, and, with respect to the Company, shall include any Person beneficially owning or holding, directly or indirectly, 10% or more of any class of voting or equity interests of the Company or any Subsidiary or any corporation of which the Company and its Subsidiaries beneficially own or hold, in the aggregate, directly or indirectly, 10% or more of any class of voting or equity interests. As used in this definition, **"Control"** means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise. Unless the context otherwise clearly requires, any reference to an "Affiliate" is a reference to an Affiliate of the Company.

"Anti–Terrorism Order" means Executive Order No. 13,224 of September 24, 2001, Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit or Support Terrorism, 66 U.S. Fed. Reg. 49, 079 (2001), as amended.

"Beneficial Owner" has the meaning as defined by Rule 13d–3 and Rule 13d–5 under the Exchange Act, except that in calculating the beneficial ownership of any particular "person" (as that term is used in Sections 13(d) and 14(d) of the Exchange Act), notwithstanding the provisions of Rule 13(d)(1)(i)(A) and (B), such "person" will not be deemed to have beneficial ownership of any securities that such "person" has the right to acquire by conversion of other securities or the exercise of any option, warrant or right, whether such right is currently exercisable or is exercisable only upon the occurrence of a subsequent condition. The terms "Beneficially Owns" and "Beneficially Owned" have the correlative meaning.

"Beneficial Holder" is defined in Section 13.4(a).

"Business Day" means any day other than a Saturday, a Sunday or a day on which commercial banks in New York, New York or Minneapolis, Minnesota are required or authorized to be closed.

"Capital Lease" means, at any time, a lease with respect to which the lessee is required concurrently to recognize the acquisition of an asset and the incurrence of a liability in accordance with GAAP.

"Capital Lease Obligation" means, with respect to any Person and a Capital Lease, the amount of the obligation of such Person as the lessee under such Capital Lease which would, in accordance with GAAP, appear as a liability on a balance sheet of such Person.

“Capital Stock” means any and all shares, interests, participations or other equivalents (however designated) of capital stock of a corporation, any and all equivalent ownership interests in a Person (other than a corporation) and any and all warrants, rights or options to purchase any of the foregoing.

“Change in Control” means an event or series of events by which any “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act, but excluding any employee benefit plan of such person or its Subsidiaries, and any Person acting in its capacity as trustee, agent or other fiduciary or administrator of any such plan) becomes the Beneficial Owner, directly or indirectly, of 50% or more of the Capital Stock of the Company entitled to vote for members of the board of directors or equivalent governing body of the Company

“Closing” is defined in Section 3.

“Code” means the Internal Revenue Code of 1986, as amended from time to time, and the rules and regulations promulgated thereunder from time to time.

“Company” means Piper Jaffray Companies, a Delaware corporation or any successor that becomes such in the manner prescribed in Section 10.2.

“Confidential Information” is defined in Section 20.

“Consolidated EBITDA” shall mean, for any period, (a) the Consolidated Net Income for such period, plus (b) to the extent deducted in determining such Consolidated Net Income for such period, the sum of the following for such period: (i) Consolidated Interest Expense for such period, (ii) income tax expense for such period (iii) depreciation and amortization for such period, and (iv) the aggregate amount of extraordinary, non–operating or non–cash charges for such period, and, *minus,* without duplication, (c) the aggregate amount of extraordinary, non–operating or non–cash income during such period.

“Consolidated Fixed Charges” means, with respect to any period, the sum of (i) Consolidated Interest Expense for such period *plus* (ii) Lease Rentals for such period.

“Consolidated Funded Indebtedness” means as of any date of determination the total amount of all Indebtedness of the Company and its Subsidiaries payable one year or more from the date of its creation, including the current portion thereof.

“Consolidated Interest Expense” shall mean, for any period, the gross interest expense of the Company and its Subsidiaries on Consolidated Funded Indebtedness deducted in the calculation of Consolidated Net Income for such period, determined on a consolidated basis in accordance with GAAP.

"Consolidated Net Income" shall mean, for any period, the consolidated net income (or loss) of the Company and its Subsidiaries for such period, determined on a consolidated basis in accordance with GAAP.

"Consolidated Tangible Net Worth" shall mean the consolidated stockholder's equity of the Company and its Subsidiaries, as defined according to GAAP; less the purchase price of acquired businesses in excess of the fair market value of tangible net assets, other items of goodwill, patents, trademarks, trade names, copyrights, organization expense, unamortized debt discount and expense, any write–up of the value of any assets, and other like intangibles, all determined on a consolidated basis in accordance with GAAP.

"Default" means an event or condition the occurrence or existence of which would, with the lapse of time or the giving of notice or both, become an Event of Default.

"DTC" means The Depository Trust Company, New York, New York, or a successor thereto registered under the Securities Exchange Act of 1934, as amended, of other applicable statute or regulation.

"Electronic Delivery" is defined in Section 7.1(a).

"Environmental Laws" means any and all Federal, state, local, and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or governmental restrictions relating to pollution and the protection of the environment or the release of any materials into the environment, including but not limited to those related to Hazardous Materials.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

"ERISA Affiliate" means any trade or business (whether or not incorporated) that is treated as a single employer together with the Company under section 414 of the Code.

"Event of Default" is defined in Section 11.

"Form 10–K" is defined in Section 7.1(b).

"Form 10–Q" is defined in Section 7.1(a).

"GAAP" means generally accepted accounting principles as in effect from time to time in the United States of America.

"Global Notes" is defined in Section 13.2(b).

"Governmental Authority" means

(a) the government of

(i) the United States of America or any State or other political subdivision thereof, or

(ii) any other jurisdiction in which the Company or any Subsidiary conducts all or any part of its business, or which asserts jurisdiction over any properties of the Company or any Subsidiary, or

(b) any entity exercising executive, legislative, judicial, regulatory or administrative functions of, or pertaining to, any such government.

"Guaranty" means, with respect to any Person, any obligation (except the endorsement in the ordinary course of business of negotiable instruments for deposit or collection) of such Person guaranteeing or in effect guaranteeing any indebtedness, dividend or other obligation of any other Person in any manner, whether directly or indirectly, including (without limitation) obligations incurred through an agreement, contingent or otherwise, by such Person:

(a) to purchase such indebtedness or obligation or any property constituting security therefor;

(b) to advance or supply funds (i) for the purchase or payment of such indebtedness or obligation, or (ii) to maintain any working capital or other balance sheet condition or any income statement condition of any other Person or otherwise to advance or make available funds for the purchase or payment of such indebtedness or obligation;

(c) to lease properties or to purchase properties or services primarily for the purpose of assuring the owner of such indebtedness or obligation of the ability of any other Person to make payment of the indebtedness or obligation; or

(d) otherwise to assure the owner of such indebtedness or obligation against loss in respect thereof.

In any computation of the indebtedness or other liabilities of the obligor under any Guaranty, the indebtedness or other obligations that are the subject of such Guaranty shall be assumed to be direct obligations of such obligor.

"Hazardous Material" means any and all pollutants, toxic or hazardous wastes or other substances that might pose a hazard to health and safety, the removal of which may be required or the generation, manufacture, refining, production, processing, treatment, storage, handling, transportation, transfer, use, disposal, release, discharge, spillage, seepage or filtration of which is or shall be restricted, prohibited or penalized by any applicable law including, but not limited to, asbestos, urea formaldehyde foam insulation, polychlorinated biphenyls, petroleum, petroleum products, lead based paint, radon gas or similar restricted, prohibited or penalized substances.

"holder" means, with respect to any Note the Person in whose name such Note is registered in the register maintained by the Company pursuant to Section 13.1.

"Indebtedness" with respect to any Person means, at any time, without duplication,

(a) its liabilities for borrowed money and its redemption obligations in respect of mandatorily redeemable Preferred Stock;

(b) its liabilities for the deferred purchase price of property acquired by such Person (excluding accounts payable arising in the ordinary course of business but including all liabilities created or arising under any conditional sale or other title retention agreement with respect to any such property);

(c) (i) all liabilities appearing on its balance sheet in accordance with GAAP in respect of Capital Leases and (ii) all liabilities which would appear on its balance sheet in accordance with GAAP in respect of Synthetic Leases assuming such Synthetic Leases were accounted for as Capital Leases;

(d) all liabilities for borrowed money secured by any Lien with respect to any property owned by such Person (whether or not it has assumed or otherwise become liable for such liabilities);

(e) all its liabilities in respect of letters of credit or instruments serving a similar function issued or accepted for its account by banks and other financial institutions (whether or not representing obligations for borrowed money);

(f) the aggregate Swap Termination Value of all Swap Contracts of such Person; and

(g) any Guaranty of such Person with respect to liabilities of a type described in any of clauses (a) through (f) hereof.

Indebtedness of any Person shall include all obligations of such Person of the character described in clauses (a) through (g) to the extent such Person or its property remains legally liable in respect thereof notwithstanding that any such obligation is deemed to be extinguished under GAAP.

"Initial Purchaser" is defined in Section 2.

"Interest Payment Date" is defined in Section 1.2.

"Interest Rate" means a annual interest rate equal to the LIBOR Rate, plus 4.10%, adjusted quarterly on the last day of December, March, June and September.

"Lease Rentals" shall mean, for any period, the aggregate amount of rental or operating lease expense payable by the Company and its Subsidiaries with respect to leases of real and

personal property (excluding Capital Lease Obligations) determined on a consolidated basis in accordance with GAAP.

"LIBOR Rate" means, the rate per annum determined by reference to the British Bankers' Association Interest Settlement Rates for deposits in dollars offered on the London interbank dollar market for a three month period in an amount comparable to the aggregate amount of the Notes (as displayed in the Bloomberg Financial Market System or any successor thereto or any other service selected by the Company that has been nominated by the British Bankers' Association as an authorized information vendor for the purpose of displaying such rates), or (b) if such rate cannot be determined, the rate per annum equal to the rate determined by the Company to be a rate at which U.S. dollar deposits are offered to major banks in the London interbank eurodollar market for funds, in each case rounded upwards, if necessary, to the nearest .01 of 1%.

"Lien" means, with respect to any Person, any mortgage, lien, pledge, charge, security interest or other encumbrance, or any interest or title of any vendor, lessor, lender or other secured party to or of such Person under any conditional sale or other title retention agreement or Capital Lease, upon or with respect to any property or asset of such Person (including in the case of stock, stockholder agreements, voting trust agreements and all similar arrangements).

"Material" means material in relation to the business, operations, affairs, financial condition, assets, properties, or prospects of the Company and its Subsidiaries taken as a whole.

"Material Adverse Effect" means a material adverse effect on (a) the business, operations, affairs, financial condition, assets or properties of the Company and its Subsidiaries taken as a whole, or (b) the ability of the Company to perform its obligations under this Agreement and the Notes, or (c) the validity or enforceability of this Agreement or the Notes.

"Minimum Consolidated Tangible Net Worth" means an amount equal to (i) 80% of the Consolidated Tangible Net Worth of the Company as of December 31, 2009, less (ii) all goodwill and other intangible assets recorded in connection with the Company's acquisition of Advisory Research, Inc.

"Multiemployer Plan" means any Plan that is a "multiemployer plan" (as such term is defined in section 4001(a)(3) of ERISA).

"NAIC" means the National Association of Insurance Commissioners or any successor thereto.

"Notes" is defined in Section 1.

"Officer's Certificate" means a certificate of a Senior Financial Officer or of any other officer of the Company whose responsibilities extend to the subject matter of such certificate.

"Operating Cash Flow" means, for any period, (a) Consolidated EBITDA for such period, plus (b) Lease Rentals for such period, minus (c) capital expenditures to replace existing equipment, income tax expense and dividends paid for such period.

"PBGC" means the Pension Benefit Guaranty Corporation referred to and defined in ERISA or any successor thereto.

"Person" means an individual, partnership, corporation, limited liability company, association, trust, unincorporated organization, business entity or Governmental Authority.

"Plan" means an "employee benefit plan" (as defined in section 3(3) of ERISA) subject to Title I of ERISA that is or, within the preceding five years, has been established or maintained, or to which contributions are or, within the preceding five years, have been made or required to be made, by the Company or any ERISA Affiliate or with respect to which the Company or any ERISA Affiliate may have any liability.

"Preferred Stock" means any class of capital stock of a Person that is preferred over any other class of capital stock (or similar equity interests) of such Person as to the payment of dividends or the payment of any amount upon liquidation or dissolution of such Person.

"property" or **"properties"** means, unless otherwise specifically limited, real or personal property of any kind, tangible or intangible, choate or inchoate.

"PTE" is defined in Section 6.2(a).

"Purchasers" is defined in the first paragraph of this Agreement.

"Qualified Institutional Buyer" means any Person who is a "qualified institutional buyer" within the meaning of such term as set forth in Rule 144A(a)(1) under the Securities Act.

"Record Date" is defined in Section 1.2.

"Regulatory Net Capital" means the Regulatory Net Capital of Piper Jaffray & Co. as shown on its monthly FOCUS report.

"Required Holders" means, at any time, the holders of at least 51% in principal amount of the Notes at the time outstanding (exclusive of Notes then owned by the Company or any of its Affiliates).

"Responsible Officer" means any Senior Financial Officer and any other officer of the Company with responsibility for the administration of the relevant portion of this Agreement.

"Rule 144A" is defined in Section 6.1.

"SEC" shall mean the Securities and Exchange Commission of the United States, or any successor thereto.

"Securities" or **"Security"** shall have the meaning specified in Section 2(1) of the Securities Act.

"Securities Act" means the Securities Act of 1933, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

"Senior Financial Officer" means the chief financial officer, principal accounting officer, treasurer or comptroller of the Company.

"Subsidiary" means, as to any Person, any other Person in which such first Person or one or more of its Subsidiaries or such first Person and one or more of its Subsidiaries owns sufficient equity or voting interests to enable it or them (as a group) ordinarily, in the absence of contingencies, to elect a majority of the directors (or Persons performing similar functions) of such second Person, and any partnership or joint venture if more than a 50% interest in the profits or capital thereof is owned by such first Person or one or more of its Subsidiaries or such first Person and one or more of its Subsidiaries (unless such partnership or joint venture can and does ordinarily take major business actions without the prior approval of such Person or one or more of its Subsidiaries). Unless the context otherwise clearly requires, any reference to a "Subsidiary" is a reference to a Subsidiary of the Company.

"SVO" means the Securities Valuation Office of the NAIC or any successor to such Office.

"Swap Contract" means (a) any and all interest rate swap transactions, basis swap transactions, basis swaps, credit derivative transactions, forward rate transactions, commodity swaps, commodity options, forward commodity contracts, equity or equity index swaps or options, bond or bond price or bond index swaps or options or forward foreign exchange transactions, cap transactions, floor transactions, currency options, spot contracts or any other similar transactions or any of the foregoing (including, but without limitation, any options to enter into any of the foregoing), and (b) any and all transactions of any kind, and the related confirmations, which are subject to the terms and conditions of, or governed by, any form of master agreement published by the International Swaps and Derivatives Association, Inc., any International Foreign Exchange Master Agreement.

"Swap Termination Value" means, in respect of any one or more Swap Contracts, after taking into account the effect of any legally enforceable netting agreement relating to such Swap Contracts, (a) for any date on or after the date such Swap Contracts have been closed out and termination value(s) determined in accordance therewith, such termination value(s), and (b) for any date prior to the date referenced in clause (a), the amounts(s) determined as the mark–to–market values(s) for such Swap Contracts, as determined based upon one or more mid–market or other readily available quotations provided by any recognized dealer in such Swap Contracts[41A].

"Synthetic Lease" means, at any time, any lease (including leases that may be terminated by the lessee at any time) of any property (a) that is accounted for as an operating lease under GAAP and (b) in respect of which the lessee retains or obtains ownership of the

property so leased for U.S. federal income tax purposes, other than any such lease under which such Person is the lessor.

"Total Capitalization" means, as of any date, the sum of (a) Consolidated Funded Indebtedness, plus (b) Consolidated Tangible Net Worth.

"USA Patriot Act" means United States Public Law 107−56, Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT ACT) Act of 2001, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

"Wholly−Owned Subsidiary" means, at any time, any Subsidiary one hundred percent of all of the equity interests (except directors' qualifying shares) and voting interests of which are owned by any one or more of the Company and the Company's other Wholly−Owned Subsidiaries at such time.

Schedule 5.3

Disclosure Materials

None.

EXHIBIT 5.3

(To Note Purchase Agreement)

Schedule 5.4

Subsidiaries of the Company and Ownership of Subsidiary Stock

(a)(i). Subsidiaries of the Company and Ownership

Subsidiary Name	Jurisdiction of Organization	Parent	Percentage of Stock Owned by the Company and each other Subsidiary
Piper Jaffray Newco Inc.	Delaware	Piper Jaffray Investment Management Inc.	100%
Piper Jaffray & Co.	Delaware	Piper Jaffray Companies	100%
Piper Jaffray Ltd.	United Kingdom	Piper Jaffray Companies	100%
PJC Nominees Ltd.	United Kingdom	Piper Jaffray Ltd.	100%
Piper Jaffray Financial Products Inc.	Delaware	Piper Jaffray Companies	100%
Piper Jaffray Financial Products II Inc.	Delaware	Piper Jaffray Companies	100%
Piper Jaffray Financial Products III Inc.	Delaware	Piper Jaffray Companies	100%
Piper Jaffray Funding LLC	Delaware	Piper Jaffray Companies	100%
Piper Jaffray Lending LLC	Delaware	Piper Jaffray Companies	100%
Piper Jaffray Private Capital Inc.	Delaware	Piper Jaffray Companies	100%
Piper Jaffray Private Capital LLC	Delaware	Piper Jaffray Companies	100%
Piper Jaffray Private Equity Funds Group I, LLC	Delaware	Piper Jaffray Companies	100%
Piper Jaffray Ventures Inc.	Delaware	Piper Jaffray Companies	100%
Piper Ventures Capital Inc.	Delaware	Piper Jaffray Ventures Inc.	100%
PJC Capital LLC	Delaware	Piper Jaffray Companies	100%
Piper Jaffray Foundation	Delaware	Piper Jaffray Companies	100%
Piper Jaffray Investment Management Inc.	Delaware	Piper Jaffray Companies	100%
Piper Jaffray Investment Management LLC	Delaware	Piper Jaffray Investment Management Inc.	100%
Fiduciary Asset Management, LLC	Missouri	Piper Jaffray Investment Management Inc.	100%
Piper Jaffray MENA (LP) Inc.	Delaware	Piper Jaffray Companies	100%
PJC Consumer Partners	Delaware	Piper Jaffray Companies	100%

Subsidiary Name	Jurisdiction of Organization	Parent	Percentage of Stock Owned by the Company and each other Subsidiary
Acquisition I, LLC			
PJC Capital Management LLC	Delaware	Piper Jaffray Companies	100%
Piper Jaffray Lending Inc.	Delaware	Piper Jaffray Companies	100%
Piper Jaffray Green Fund LLC	Delaware	Piper Jaffray Companies	100%
PJC Merchant Banking Partners I, LLC	Delaware	Piper Jaffray Companies	100%
Piper Jaffray Asia Holdings Limited	Hong Kong	Piper Jaffray Companies	100%
Piper Jaffray Asia Limited	Hong Kong	Piper Jaffray Companies	100%
Piper Jaffray Asia Securities Limited	Hong Kong	Piper Jaffray Companies	100%
Piper Jaffray Asia Futures Limited	Hong Kong	Piper Jaffray Companies	100%
Piper Jaffray Asia Management Services Limited	Hong Kong	Piper Jaffray Companies	100%
Goldbond Fund Management (Cayman) Limited	Cayman Islands	Piper Jaffray Companies	100%
Grandward Investments Limited	Hong Kong	Piper Jaffray Companies	100%

(a)(ii). Affiliates of the Company, other than Subsidiaries

None.

(a)(iii). Directors and Senior Officers of the Company

Directors	
Andrew S. Duff	B. Kristine Johnson
Addison L. Piper	Lisa K. Polsky
Michael R. Francis	Frank L. Sims
Virginia Gambale	Jean M. Taylor

EXHIBIT 5.4
(To Note Purchase Agreement)

Senior Officers	Title
Andrew S. Duff	Chairman and Chief Executive Officer
Thomas P. Schnettler	President and Chief Operating Officer
James L. Chosy	General Counsel and Secretary
Frank E. Fairman	Head of Public Finance Services
R. Todd Firebaugh	Chief Administrative Officer
Alex P.M. Ko	Head of Piper Jaffray Asia
Robert W. Peterson	Head of Equities
Jon W. Salveson	Head of Investment Banking
Debbra L. Schoneman	Chief Financial Officer
David I. Wilson	CEO, Piper Jaffray Ltd.
M. Brad Winges	Head of Fixed Income Services

(d)

Piper Jaffray & Co. is subject to the uniform net capital rule of the SEC and the net capital rule of Financial Industry Regulatory Authority ("FINRA"). 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. In addition, advances to affiliates, repayment of subordinated debt, dividend payments and other equity withdrawals by Piper Jaffray & Co. are subject to certain notification and other provisions of the SEC and FINRA rules. Piper Jaffray & Co. also is subject to certain notification requirements related to withdrawals of excess net capital.

Piper Jaffray Ltd., which is a registered United Kingdom broker dealer, is subject to the capital requirements of the U.K. Financial Services Authority ("FSA"). Piper Jaffray Asia Holdings Limited operates four entities licensed by the Hong Kong Securities and Futures Commission ("SFC"), which are subject to the liquid capital requirements of the Securities and Futures (Financial Resources). Similar to the requirements of the SEC and FINRA, the FSA and SFC may restrict the ability of these subsidiaries from paying dividends or require notification of advances to affiliates, repayment of debt, dividend payments or other equity withdrawals.

EXHIBIT 5.4

(To Note Purchase Agreement)

Schedule 5.5

Financial Statements

The Company's Annual Report on Form 10−K for the fiscal year ending December 31, 2008 (that contained Consolidated Statements of Financial Condition as at December 31, 2008 and Consolidated Statements of Operations and Consolidated Statements of Cash Flows for the 12 months then ended, audited by Ernst & Young LLP).

The Company's Quarterly Report on Form 10−Q for the quarter ending September 30, 2009 (that contained unaudited Consolidated Statements of Financial Condition as at September 30, 2009 and unaudited Consolidated Statements of Operations for the 3 and 9 months then ended and Consolidated Statements of Cash Flows for the 9 months then ended).

EXHIBIT 5.5

(To Note Purchase Agreement)

Schedule 5.15

Existing Indebtedness

None.

EXHIBIT 5.15

(To Note Purchase Agreement)

THE SECURITIES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, AND (B) IN ACCORDANCE WITH ALL APPLICABLE BLUE SKY LAWS OF THE STATES OF THE UNITED STATES.

[Form of Note]
Piper Jaffray Companies
Variable Rate Senior Note Due December ___, 2010

No. [__________] [Date]
$[__________] CUSP No. 724078AA8
ISIN No. US724078AA83

For Value Received, the undersigned, Piper Jaffray Companies (herein called the **"Company"),** a corporation organized and existing under the laws of the State of Delaware, hereby promises to pay to [__________], or registered assigns, the principal sum of [__________] Dollars (or so much thereof as shall not have been prepaid) on December 31, 2010, with interest (computed on the basis of actual days elapsed and a 360–day year) (a) on the unpaid balance hereof at the rate per annum equal to the Interest Rate from the date hereof, payable on the last day of March, June, September and December in each year (each, an **"Interest Payment Date")** and at maturity, commencing on March ___, 2010 until the principal hereof shall have become due and payable, and (b) to the extent permitted by law, on any overdue payment (including any overdue prepayment) of principal and on any overdue payment of interest, at a rate per annum from time to time equal to 2% over the rate of interest set forth in clause (a), payable quarterly on each Interest Payment Date as aforesaid (or, at the option of the registered holder hereof, on demand). Interest payable on each Interest Payment Date will be paid to the holder of this Note as of the immediately preceding Record Date. **"Record Date"** means, with respect to any Interest Payment Date, the tenth Business Day prior to such Interest Payment Date.

Payments of principal of and interest on this Note are to be made in lawful money of the United States of America at the Corporate trust office of The Bank of New York Mellon Trust Company, N.A. in Chicago, Illinois, or at such other place as the Company shall have designated by written notice to the holder of this Note as provided in the Note Purchase Agreement referred to below.

This Note is one of a series of Senior Notes (herein called the **"Notes")** issued pursuant to the Note Purchase Agreement, dated as of December 31, 2009 (as from time to time amended, the **"Note Purchase Agreement"),** among the Company and the Purchasers named therein and is entitled to the benefits thereof. Each holder of this Note will be deemed, by its acceptance hereof, to have made the representation set forth in Sections 6.1 and 6.2 of the Note Purchase Agreement. Unless otherwise indicated, capitalized terms used in this Note shall have the respective meanings ascribed to such terms in the Note Purchase Agreement.

This Note is a registered Note and, as provided in the Note Purchase Agreement, upon surrender of this Note for registration of transfer accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder's attorney duly authorized in writing, a new Note for a like principal amount will be issued to, and registered in the name of, the transferee. Notes shall be issued in denominations of not less than $500,000, provided that if necessary to enable the registration of transfer by a holder of its entire holding of Notes, one Note may be in a denomination of less than $500,000. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company will not be affected by any notice to the contrary.

This Note is subject to optional prepayment, in whole or from time to time in part, at the times and on the terms specified in the Note Purchase Agreement, but not otherwise.

If an Event of Default occurs and is continuing, the principal of this Note may be declared or otherwise become due and payable in the manner, at the price and with the effect provided in the Note Purchase Agreement.

This Note shall be construed and enforced in accordance with, and the rights of the Company and the holder of this Note shall be governed by, the law of the State of New York excluding choice–of–law principles of the law of such State that would permit the application of the laws of a jurisdiction other than such State.

Piper Jaffray Companies

By

[Name and Title]

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION (“DTC”), TO THE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT HEREON IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

TRANSFERS OF THIS GLOBAL NOTE SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO DTC, TO NOMINEES OF DTC OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR’S NOMINEE AND TRANSFERS OF PORTIONS OF THIS GLOBAL NOTE SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN SECTION 13 OF THE NOTE PURCHASE AGREEMENT GOVERNING THIS GLOBAL NOTE.

THE SECURITIES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”) AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A AND (B) IN ACCORDANCE WITH ALL APPLICABLE BLUE SKY LAWS OF THE STATES OF THE UNITED STATES.

[Form of Global Note]
Piper Jaffray Companies
Variable Rate Senior Note Due December 31, 2010

No. [__________]
$[__________]

December 31, 2009
CUSP No. 724078AA8
ISIN No. US724078AA83

For Value Received, the undersigned, Piper Jaffray Companies (herein called the **"Company"),** a corporation organized and existing under the laws of the State of Delaware, hereby promises to pay to Cede & Co., or registered assigns, the principal sum of [__________] Dollars (or so much thereof as shall not have been prepaid) on December 31, 2010, with interest (computed on the basis of actual days elapsed and a 360–day year) (a) on the unpaid balance hereof at the rate per annum equal to the Interest Rate from the date hereof, payable on the last day of March, June, September and December in each year (each, an **"Interest Payment Date")** and at maturity, commencing on March 31, 2010 until the principal hereof shall have become due and payable, and (b) to the extent permitted by law, on any overdue payment (including any overdue prepayment) of principal and on any overdue payment of interest, at a rate per annum from time to time equal to 2% over the rate of interest set forth in clause (a), payable quarterly on each Interest Payment Date as aforesaid (or, at the option of the registered holder hereof, on demand). Interest payable on each Interest Payment Date will be paid to the record holder of this Note as of the immediately preceding Record Date. **"Record Date"** means, with respect to any Interest Payment Date, the tenth Business Day prior to such Interest Payment Date.

Payments of principal of and interest on this Note are to be made in lawful money of the United States of America at the corporate trust office of The Bank of New York Mellon Trust Company, N.A. in Chicago, Illinois or at such other place as the Company shall have designated by written notice to the holder of this Note as provided in the Note Purchase Agreement referred to below.

This Note is one of a series of Senior Notes (herein called the "**Notes**") issued pursuant to the Note Purchase Agreement, dated as of December 31, 2009 (as from time to time amended, the **"Note Purchase Agreement"),** among the Company and the Purchasers named therein and is entitled to the benefits thereof. Each holder of this Note and each holder of a beneficial interest in this Note will be deemed, by its acceptance hereof or thereof, to have made the representations set forth in Sections 6.1 and 6.2 of the Note Purchase Agreement. Unless otherwise indicated, capitalized terms used in this Note shall have the respective meanings ascribed to such terms in the Note Purchase Agreement.

This Global Note is being held by DTC acting as Depository, and registered in the name of Cede & Co., a nominee of DTC, and transfers shall be made solely through the book–entry system of DTC. This Note is a registered Note and, if issued in certificated form and not held through DTC, as provided in the Note Purchase Agreement, upon surrender of this Note for registration of transfer accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder's attorney duly authorized in writing, a new Note for a like principal amount will be issued to, and registered in the name of, the transferee. Notes shall be issued in denominations of not less than $500,000, provided that if necessary to enable the registration of transfer by a holder of its entire holding of Notes, one Note may be in a denomination of less than $500,000. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company will not be affected by any notice to the contrary.

This Note is subject to optional prepayment, in whole or from time to time in part, at the times and on the terms specified in the Note Purchase Agreement, but not otherwise.

If an Event of Default occurs and is continuing, the principal of this Note may be declared or otherwise become due and payable in the manner, at the price and with the effect provided in the Note Purchase Agreement.

This Note shall be construed and enforced in accordance with, and the rights of the Company and the holder of this Note shall be governed by, the law of the State of New York excluding choice–of–law principles of the law of such State that would permit the application of the laws of a jurisdiction other than such State.

Piper Jaffray Companies

By
[Name and Title]

Form of Opinion of Special Counsel
to the Company
Matters To Be Covered in
Opinion of Special Counsel to the Company

1. The Company being a corporation validly existing and in good standing and having requisite corporate power and authority to issue and sell the Notes and to execute and deliver the documents.
2. Due authorization, execution and delivery of the documents and such documents being legal, valid, binding and enforceable.
3. No conflicts with charter documents, material agreements and laws.
4. All governmental consents required to issue and sell the Notes and to execute and deliver the documents having been obtained.
5. No litigation questioning validity of documents.
6. The Notes not requiring registration under the Securities Act of 1933, as amended; no need to qualify an indenture under the Trust Indenture Act of 1939, as amended.
7. The Company not being required to register as an "investment company" under the Investment Company Act.

EXHIBIT 4.4(a)
(To Note Purchase Agreement)

THIRD AMENDMENT TO LOAN AGREEMENT (BROKER–DEALER VRDN FACILITY)

THIS THIRD AMENDMENT TO LOAN AGREEMENT (BROKER–DEALER VRDN FACILITY) (this "Amendment") made and entered into as of September 30, 2010, by and between: **PIPER JAFFRAY & CO.,** a Delaware corporation ("Borrower"), and **U.S. BANK NATIONAL ASSOCIATION,** a national banking association ("Lender"); has reference to the following facts and circumstances (the "Preambles"):

A. Borrower and Lender entered into the Loan Agreement (Broker–Dealer VRDN Facility) dated as of September 30, 2008 (as amended, the "Agreement"; all capitalized terms used and not otherwise defined in this Amendment shall have the respective meanings ascribed to them in the Agreement as amended by this Amendment).

B. The Agreement was amended previously, as described in the Amendment to Loan Agreement (Broker–Dealer VRDN Facility) dated as of November 3, 2008 and the Second Amendment to Loan Agreement (Broker–Dealer VRDN Facility) dated as of September 25, 2009; and Borrower and Lender desire to further amend the Agreement in the manner hereinafter set forth.

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Borrower and Lender hereby agree as follows:

1. Preambles. The Preambles are true and correct, and, with the defined terms set forth herein, are incorporated herein by this reference.

2. Amendment to Agreement. The Agreement is amended effective as of September 30, 2008, as follows:

(a) The definition of "Termination Date" in Section 1 of the Agreement is deleted and replaced with the following:

Termination Date shall mean the earlier of December 31, 2010, or the date on which this Agreement is terminated pursuant to Section 12.

(b) Exhibit C to the Agreement is deleted and replaced with Exhibit C attached hereto and incorporated by reference.

3. References. All references in the Note, the Collateral Pledge Agreement, and the other Credit Documents to "the Loan Agreement (Broker–Dealer VRDN Facility)", and any other references of similar import shall henceforth mean the Agreement as amended by this Amendment.

4. Full Force and Effect. Except to the extent specifically amended by this Amendment, all of the terms, provisions, conditions, covenants, representations and warranties contained in the Agreement shall be and remain in full force and effect and the same are hereby ratified and confirmed.

5. Continuing Security. The Agreement, as hereby amended, and the Note, are, and shall continue to be, secured by the Collateral Pledge Agreement.

6. Successors and Assigns. This Amendment shall be binding upon and inure to the benefit of Borrower and Lender and their respective successors and assigns, except that Borrower may not assign, transfer or delegate any of its rights or obligations under the Agreement as amended by this Amendment.

7. Representations and Warranties. Borrower hereby represents and warrants to Lender that:

(a) the execution, delivery and performance by Borrower of this Amendment are within the corporate powers of Borrower, have been duly authorized by all necessary corporate action and require no action by or in respect of, consent of or filing or recording with, any governmental or regulatory body, instrumentality, authority, agency or official or any other person or entity;

(b) the execution, delivery and performance by Borrower of this Amendment do not conflict with, or result in a breach of the terms, conditions or provisions of, or constitute a default under or result in any violation of,

the terms of the Certificate or Articles of Incorporation or By–Laws of Borrower, any applicable law, rule, regulation, order, writ, judgment or decree of any court or governmental or regulatory body, instrumentality authority, agency or official or any agreement, document or instrument to which Borrower is a party or by which Borrower or any of its property or assets is bound or to which Borrower or any of its property is subject;

(c) this Amendment has been duly executed and delivered by Borrower and constitutes the legal, valid and binding obligation of Borrower enforceable against Borrower in accordance with its terms, except as such enforceability may be limited by (i) applicable bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally and (ii) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law);

(d) all of the representations and warranties made by Borrower in the Agreement, the Note, the Collateral Agreement, and the other Credit Documents are true and correct in all material respects on and as of the date of this Amendment as if made on and as of the date of this Amendment; and

(e) as of the date of this Amendment, Borrower is in compliance with all provisions of the Agreement, the Note, the Collateral Agreement, and the other Credit Documents.

8. Inconsistency. In the event of any inconsistency or conflict between this Amendment and the Agreement, the terms, provisions and conditions contained in this Amendment shall govern and control.

9. Conditions. Notwithstanding any provision contained in this Amendment to the contrary, this Amendment shall not be effective unless and until Lender shall have received:

(a) this Amendment, duly executed by Borrower;

(b) a Certificate of Secretary (with Resolutions), certified by the Secretary of Borrower;

(c) the Pricing Letter, duly executed by Borrower;

(d) a certificate of good standing for Borrower issued by the Delaware Secretary of State (or other evidence of good standing acceptable to Lender); and

(e) such other documents and information as reasonably required by Lender.

IN WITNESS WHEREOF, Borrower and Lender have executed this Amendment as of the day and year first above written.

(SIGNATURES ON FOLLOWING PAGE)

SIGNATURE PAGE–
THIRD AMENDMENT TO LOAN AGREEMENT (BROKER–DEALER VRDN FACILITY)

Borrower:

PIPER JAFFRAY & CO.

By: /s/ Debbra L. Schoneman
Debbra L. Schoneman, Chief Financial Officer

By: /s/ Timothy L. Carter
Timothy L. Carter, Treasurer

Lender:

U.S. BANK NATIONAL ASSOCIATION

By: /s/ Katherine K. Miller
Katherine K. Miller, Senior Vice President

Exhibit C

(Pricing and Fees)

Applicable Margin shall have the meaning set forth in the letter agreement dated October 30, 2010, executed by Lender and Borrower (the "Pricing Letter").

Commitment Fee shall have the meaning set forth in the Pricing Letter.

Advisory Fee shall have the meaning set forth in the Pricing Letter.

September 30, 2010
Piper Jaffray & Co.
800 Nicollet Mall, J09S04
Minneapolis, Minnesota 55402
Attention: Debbra L. Schoneman, Chief Financial Officer and Timothy L. Carter, Treasurer
Re: Loan Agreement (Broker–Dealer VRDN Facility) dated as of September 30, 2008, executed by U.S. Bank National Association ("Lender") and Piper Jaffray & Co. ("Borrower") (as amended, the "Agreement"; all capitalized terms used and not otherwise defined in this Amendment shall have the respective meanings ascribed to them in the Agreement as amended by this letter agreement)
Dear Debbra and Tim:
This letter agreement is the Pricing Letter, as defined in the Third Amendment to Loan Agreement (Broker–Dealer VRDN Facility) dated as of September 30, 2010. The following terms are defined and incorporated into the Agreement by reference:

Applicable Margin shall mean One Percent (1.0%).

Commitment Fee. From and including the date of this Agreement to but excluding the Termination Date, Borrower shall pay a nonrefundable commitment fee on the unused portion of the Facility Amount (determined by subtracting the outstanding principal amount of all Advances from the Facility Amount) at an annual rate of 25/100 Percent (0.25%). The commitment fee shall be (a) calculated on a daily basis, (b) payable quarterly in arrears on the first (1st) day of each calendar quarter prior to the Termination Date and on the Termination Date, (c) calculated on an actual day, 360–day year basis; and (d) if the credit facility hereunder is terminated by Borrower at any time prior to December 31, 2010 pursuant to Section 2 above, the commitment fee owed by Borrower at that time shall be calculated as of December 31, 2010.

Advisory Fee. Borrower shall pay Lender, in conjunction with the Third Amendment to Loan Agreement dated as of September 30, 2010, an advisory fee in the amount of $78,767.12.

Please indicate your acceptance of this Pricing Letter by signing in the space indicated below and returning a copy of this letter to the undersigned.

Very Truly Yours,

U.S. BANK NATIONAL ASSOCIATION

By: /s/ Katherine K. Miller

Katherine K. Miller, Senior Vice President

(BORROWER'S SIGNATURES ON PAGE 2)

Accepted and agreed to by Borrower as of October 30, 2010:

PIPER JAFFRAY & CO.

By: /s/ Debbra L. Schoneman

Debbra L. Schoneman, Chief Financial Officer

By: /s/ Timothy L. Carter

Timothy L. Carter, Treasurer

EXHIBIT 31.1

CERTIFICATIONS

I, Andrew S. Duff, certify that:

1. I have reviewed this quarterly report on Form 10–Q of Piper Jaffray Companies;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:
    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2010

/s/ Andrew S. Duff

Andrew S. Duff
Chairman and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATIONS

I, Debbra L. Schoneman, certify that:

1. I have reviewed this quarterly report on Form 10–Q of Piper Jaffray Companies;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2010

/s/ Debbra L. Schoneman

Debbra L. Schoneman
Chief Financial Officer

EXHIBIT 32.1

Certification Under Section 906 of the Sarbanes–Oxley Act of 2002

Pursuant to Section 906 of the Sarbanes–Oxley Act of 2002, each of the undersigned certifies that this periodic report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this periodic report fairly presents, in all material respects, the financial condition and results of operations of Piper Jaffray Companies.

Dated: November 3, 2010

/s/ Andrew S. Duff

Andrew S. Duff
Chairman and Chief Executive Officer

/s/ Debbra L. Schoneman

Debbra L. Schoneman
Chief Financial Officer