FORM 10-K

PIPER JAFFRAY COMPANIES - PJC

Filed: March 02, 2009 (period: December 31, 2008)

Annual report which provides a comprehensive overview of the company for the past year

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2008

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)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock, par value $0.01 per share	The New York Stock Exchange
Preferred Share Purchase Rights	The New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☑

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

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

Large accelerated filer ☑	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 Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

The aggregate market value of the 18,479,731 shares of the Registrant's Common Stock, par value $0.01 per share, held by non-affiliates based upon the last sale price, as reported on the New York Stock Exchange, of the Common Stock on June 30, 2008 was approximately $542 million.

As of February 20, 2009, the Registrant had 19,805,995 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Parts I, II, and IV of this Annual Report on Form 10-K incorporate by reference information from the Registrant's 2008 Annual Report to Shareholders that is included in Exhibit 13.1 to this Annual Report on Form 10-K.

Part III of this Annual Report on Form 10-K incorporates by reference information (to the extent specific sections are referred to herein) from the Registrant's Proxy Statement for its 2009 Annual Meeting of Shareholders to be held on May 7, 2009.

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PART I

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-K contains forward-looking statements. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements. These forward looking statements include, among other things, statements other than historical information or statements of current condition and may relate to our future plans and objectives and results, and also may include our belief regarding the effect of various legal proceedings, as set forth under "Legal Proceedings" in Part I, Item 3 of this From 10-K. Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ materially from those anticipated, including those factors discussed below under "Risk Factors" in Item 1A, as well as those factors discussed under "External Factors Impacting Our Business" included in "Management's Discussion and Analysis of Financial Condition and Results of Operations" from our 2008 Annual Report to Shareholders and in our subsequent reports filed with the Securities and Exchange Commission ("SEC"). Our SEC reports are available at our Web site at www.piperjaffray.com and at the SEC's Web site at www.sec.gov. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update them in light of new information or future events.

ITEM 1. BUSINESS.

Overview

Piper Jaffray Companies is a leading, international middle-market investment bank and institutional securities firm, serving the needs of middle-market corporations, private equity groups, public entities, nonprofit clients and institutional investors. Founded in 1895, Piper Jaffray provides a broad set of products and services, including equity and debt capital markets products; public finance services; mergers and acquisitions advisory services; institutional equity and fixed income sales and trading; equity research; and asset management services. We are headquartered in Minneapolis, Minnesota and have 29 offices across the United States and international locations in London, Hong Kong and Shanghai. We market our investment banking and institutional securities business under a single name—Piper Jaffray—which gives us a consistent brand across this business. We market our primary asset management business under the name of FAMCO, which is derived from our subsidiary, Fiduciary Asset Management, LLC.

Prior to 1998, Piper Jaffray was an independent public company. U.S. Bancorp acquired the Piper Jaffray business in 1998 and operated it through various subsidiaries and divisions. At the end of 2003, U.S. Bancorp facilitated a tax-free distribution of our common stock to all U.S. Bancorp shareholders, causing Piper Jaffray to become an independent public company again.

Our continuing operations consist principally of four components:

- *Investment Banking* — We raise capital through equity and debt financings for our corporate clients. We operate in eight focus industries, namely, the alternative energy, business services, consumer, financial institutions, health care, industrial growth, media and telecommunications, and technology industries, primarily focusing on middle-market clients. We also provide financial advisory services relating to mergers and acquisitions to clients in these focus industries, as well as to companies in other industries. For our government and non-profit clients, we underwrite debt issuances and provide financial advisory and interest rate risk management services. Our public finance investment banking capabilities focus on state and local governments, healthcare, higher education, housing, hospitality and commercial real estate industries.
- *Equity and Fixed Income Institutional Sales and Trading* — We offer both equity and fixed income advisory and trade execution services for institutional investors, public and private corporations, public entities and non-profit clients. Integral to our capital markets efforts, we have equity sales and trading relationships with institutional investors in the United States, Europe and Asia that invest in our focus industries. Our fixed income sales and trading professionals have expertise in municipal, corporate, agency and high-yield and structured product securities and cover a range of institutional investors. In addition, we engage in proprietary trading in certain products where we have expertise.
- *Asset Management* — In the third quarter of 2007, we acquired Fiduciary Asset Management, LLC ("FAMCO"), an asset management firm with $5.9 billion in assets under management at December 31, 2008. Our asset management services are principally offered through this subsidiary. FAMCO provides services to separately managed accounts and closed-end funds and offers an array of investment products including traditional, quantitative and hedge equity, master limited partnerships and fixed income.
- *Other Income* — Other income includes gains and losses from investments in private equity and venture capital funds as well as other firm investments and income associated with the forfeiture of stock-based compensation.

On August 11, 2006, we completed the sale of our Private Client Services branch network and certain related assets to UBS Financial Services Inc., a subsidiary of UBS AG ("UBS"), thereby exiting the Private Client Services ("PCS") business. The purchase price under the asset purchase agreement was approximately $750 million, which included $500 million for the branch network and approximately $250 million for the net assets of the branch network. For further information regarding the sale, see Note 4 to our consolidated financial statements included in our 2008 Annual Report to Shareholders, which is incorporated herein by reference and is included in Exhibit 13.1 to this Form 10-K.

Our principal executive offices are located at 800 Nicollet Mall, Suite 800, Minneapolis, Minnesota 55402, and our general telephone number is (612) 303-6000. We maintain an Internet Web site at http://www.piperjaffray.com. The information contained on and connected to our Web site is not incorporated into this report. We make available free of charge on or through our Web site our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and all other reports we file with the SEC, as soon as reasonably practicable after we electronically file these reports with, or furnish them to, the SEC. "Piper Jaffray," the "Company," "registrant," "we," "us" and "our" refer to Piper Jaffray Companies and our subsidiaries. The Piper Jaffray logo and the other trademarks, tradenames and service marks of Piper Jaffray mentioned in this report, including Piper Jaffray®, are the property of Piper Jaffray.

Financial Information about Geographic Areas

We operate predominantly in the United States. We also provide investment banking, research, and sales and trading services to selected companies in international jurisdictions in Europe and Asia. Piper Jaffray Ltd. is our brokerage and investment banking subsidiary domiciled in London, England. We have investment banking offices in Hong Kong and Shanghai that operate under the name Piper Jaffray Asia. Net revenues derived from international operations were $43.3 million, $67.8 million, and $36.8 million for the years ended December 31, 2008, 2007, and 2006, respectively. Long-lived assets attributable to foreign operations were $12.7 million, $23.6 million and $3.7 million at December 31, 2008, 2007 and 2006, respectively.

Competition

The financial services industry underwent a historic reshaping in 2008. The industry witnessed the bankruptcy of Lehman Brothers Holdings Inc., multiple consolidations of financial institutions, the conversion of prominent investment banks into bank holding companies, the conservatorship of Federal Home Loan Mortgage Corporation (Freddie Mac) and Federal National Mortgage Association (Fannie Mae) by the U.S. Federal Government and the passage of the Emergency Economic Stabilization Act of 2008. Despite this reshaping, our business continues to be subject to intense competition driven by large Wall Street and international firms operating independently or as part of a large commercial banking institution. We also compete with regional broker dealers, boutique and niche-specialty firms, and alternative trading systems that effect securities transactions through various electronic media. Competition is based on a variety of factors, including price, quality of advice and service, reputation, product selection, transaction execution and financial resources. Many of our large competitors have greater financial resources than we have and may have more flexibility to offer a broader set of products and services than we can.

In addition, there is significant competition within the securities industry for obtaining and retaining the services of qualified employees. Our business is a human capital business and the performance of our business is dependent upon the skills, expertise and performance of our employees. Therefore, our ability to compete effectively is dependent upon attracting and retaining qualified individuals who are motivated to serve the best interests of our clients, thereby serving the best interests of our company. Attracting and retaining employees depends, among other things, on our company's culture, management, work environment, geographic locations and compensation.

Seasonality

Our equities trading business typically experiences a mild slowdown during the late summer months.

Employees

As of February 20, 2009, we had approximately 1,036 employees, of whom approximately 551 were registered with the Financial Industry Regulatory Authority ("FINRA").

Regulation

As a participant in the financial services industry, our business is regulated by U.S. federal and state regulatory agencies, self-regulatory organizations ("SROs") and securities exchanges, and by foreign governmental agencies, financial regulatory bodies and securities exchanges. We are subject to complex and extensive regulation of most aspects of our business, including the manner in which securities transactions are effected, net capital requirements, recordkeeping and reporting procedures, relationships and conflicts with customers, the handling of cash and margin accounts, conduct, experience and training requirements for certain employees, and the manner in which we prevent and detect money-laundering activities. The regulatory framework of the financial services industry is designed primarily to safeguard the integrity of the capital markets and to protect customers, not creditors or shareholders.

The laws, rules and regulations comprising this regulatory framework can (and do) change frequently, as can the interpretation and enforcement of existing laws, rules and regulations. Most recently, governments in the U.S. and abroad have intervened on an unprecedented scale, responding to the stresses experienced in the global financial markets. These events have in turn led to proposals for legislation that could substantially intensify the regulation of the financial services industry and are expected to be introduced in the U.S. Congress, in state legislatures and around the world. Substantial regulatory and legislative initiatives, including a comprehensive overhaul of the regulatory system in the U.S. and rules to more closely regulate derivative transactions, are possible in the years ahead. We are unable to predict whether any of these initiatives will succeed, which form they will take, or whether any additional changes to statutes or regulations, including the interpretation or implementation thereof, will occur in the future. Any such action could affect us in substantial and unpredictable ways and could have an adverse effect on our business, financial condition and results of operations.

Our operating subsidiaries include broker dealer and related securities entities organized in the United States, the United Kingdom and the Hong Kong Special Administrative Region of the People's Republic of China ("PRC"). Each of these entities is registered or licensed with the applicable local securities regulator and is a member of or participant in one or more local securities exchanges and is subject to all of the applicable rules and regulations promulgated by those authorities. We also maintain a representative office in the PRC, and this office is registered with the PRC securities regulator and subject to applicable rules and regulations of the PRC.

Specifically, our U.S. broker dealer subsidiary (Piper Jaffray & Co.) is registered as a securities broker dealer with the SEC and is a member of various SROs and securities exchanges. In July of 2007, the National Association of Securities Dealers and the member regulation, enforcement and arbitration functions of the New York Stock Exchange ("NYSE") consolidated to form FINRA, which now serves as the primary SRO of Piper Jaffray & Co., although the NYSE continues to have oversight over NYSE-related market activities. FINRA regulates many aspects of our U.S. broker dealer business, including registration, education and conduct of our employees, examinations, rulemaking, enforcement of these rules and the federal securities laws, trade reporting and the administration of dispute resolution between investors and registered firms. We have agreed to abide by the rules of FINRA (as well as those of the NYSE and other SROs), and FINRA has the power to expel, fine and otherwise discipline Piper Jaffray & Co. and its officers, directors and employees. Among the rules that apply to Piper Jaffray & Co. are the uniform net capital rule of the SEC (Rule 15c3-1) and the net capital rule of FINRA. Both rules set a minimum level of net capital a broker dealer must maintain and also require that a portion of the broker dealer's assets be relatively liquid. Under the FINRA rule, FINRA may prohibit a member firm from expanding its business or paying cash dividends if resulting net capital falls below FINRA requirements. In addition, Piper Jaffray & Co. is subject to certain notification requirements related to withdrawals of excess net capital. As a result of these rules, our ability to make withdrawals of capital from Piper Jaffray & Co. may be limited. In addition, Piper Jaffray & Co. is licensed as a broker dealer in each of the 50 states, requiring us to comply with applicable laws, rules and regulations of each state. Any state may revoke a license to conduct a securities business and fine or otherwise discipline broker dealers and their officers, directors and employees. Piper Jaffray & Co. also has established a representative office in Shanghai, PRC, which is registered with the China Securities Regulatory Commission ("CSRC") and is subject to CSRC administrative measures applicable to foreign securities organizations operating representative offices in China. These administrative measures relate to, among other things, business conduct.

Piper Jaffray Ltd., our U.K. brokerage and investment banking subsidiary, is registered under the laws of England and Wales and is authorized and regulated by the U.K. Financial Services Authority ("FSA"). As a result, Piper Jaffray Ltd. is subject to regulations regarding, among other things, capital adequacy, customer protection and business conduct.

We operate three entities licensed and regulated by the Hong Kong Securities and Futures Commission ("SFC"): Piper Jaffray Asia Limited, Piper Jaffray Asia Securities Limited and Piper Jaffray Asia Futures Limited. Each of these entities is registered under the laws of Hong Kong and subject to the Securities and Futures Ordinance and related rules regarding, among other things, capital adequacy, customer protection and business conduct.

Each of the entities identified above also is subject to anti-money laundering regulations. Piper Jaffray & Co. is subject to the USA PATRIOT Act of 2001, which contains anti-money laundering and financial transparency laws and mandates the implementation of various regulations requiring us to implement standards for verifying client identification at account opening, monitoring client transactions and reporting suspicious activity. Piper Jaffray Ltd. and our Piper Jaffray Asia entities are subject to similar anti-money laundering laws and regulations promulgated in the United Kingdom and Hong Kong, respectively. Certain of our businesses also are subject to compliance with laws and regulations of U.S. federal and state governments, non-U.S. governments, their respective agencies and/or various self-regulatory organizations or exchanges governing the privacy of client information. Any failure with respect to our practices, procedures and controls in any of these areas could subject us to regulatory consequences, including fines, and potentially other significant liabilities.

Our asset management subsidiaries, Fiduciary Asset Management LLC (FAMCO), Piper Jaffray Investment Management LLC, and Piper Jaffray Private Capital LLC, are registered as investment advisers with the SEC and subject to the regulation and oversight by the SEC. FAMCO is also authorized by the Irish Financial Services Regulatory Authority as an investment advisor in Ireland and cleared by the Luxembourg Commission de Surviellance du Secteur Financier as a manager to Luxembourg funds.

Executive Officers

Information regarding our executive officers and their ages as of February 20, 2009, are as follows:

Name	Age	Position(s)
Andrew S. Duff	51	Chairman and Chief Executive Officer
Thomas P. Schnettler	52	President and Chief Operating Officer
James L. Chosy	45	General Counsel and Secretary
Frank E. Fairman	51	Head of Public Finance Services
R. Todd Firebaugh	46	Chief Administrative Officer
Alex P.M. Ko	50	Head of Piper Jaffray Asia
Robert W. Peterson	41	Head of Equities
Jon W. Salveson	44	Head of Investment Banking
Debbra L. Schoneman	40	Chief Financial Officer
David I. Wilson	45	CEO, Piper Jaffray Ltd.
M. Brad Winges	41	Head of Fixed Income Services

Andrew S. Duff is our chairman and chief executive officer. Mr. Duff became chairman and chief executive officer of Piper Jaffray Companies following completion of our spin-off from U.S. Bancorp on December 31, 2003. He also has served as chairman of our broker dealer subsidiary since 2003, as chief executive officer of our broker dealer subsidiary since 2000, and as president of our broker dealer subsidiary since 1996. He has been with Piper Jaffray since 1980. Prior to the spin-off from U.S. Bancorp, Mr. Duff also was a vice chairman of U.S. Bancorp from 1999 through 2003.

Thomas P. Schnettler is our president and chief operating officer. He has been with Piper Jaffray since 1986 and has held his current position since May 2008. He previously served as vice chairman and chief financial officer, a position he held from August 2006 until May 2008. Prior to that, he served as head of our Corporate and Institutional Services business beginning in July 2005, and as head of our Equities and Investment Banking group from June 2002 until July 2005, head of our investment banking department from October 2001 to June 2002, and as co-head of this department from 2000 until October 2001. From 1988 to 2000, he served Piper Jaffray as a managing director in our investment banking department.

James L. Chosy is our general counsel and secretary. Mr. Chosy has served in these roles since joining Piper Jaffray in March 2001. From 1995 until joining Piper Jaffray, he was vice president, associate general counsel of U.S. Bancorp. He also served as assistant secretary of U.S. Bancorp from 1995 through 2000 and as secretary from 2000 until his move to Piper Jaffray.

Frank E. Fairman is head of our Public Finance Services business, a position he has held since July 2005. Prior to that, he served as head of the firm's public finance investment banking group from 1991 to 2005, as well as the head of the firm's municipal derivative business from 2002 to 2005. He has been with Piper Jaffray since 1983.

R. Todd Firebaugh is our chief administrative officer. Mr. Firebaugh joined Piper Jaffray as head of planning and communications in December 2003 after serving Piper Jaffray as a consultant since March 2002. He was named chief administrative officer in November 2004. Prior to joining us, he spent 17 years in marketing and strategy within the financial services industry. Most recently, from 1999 to 2001, he was executive vice president of the corporate management office at U.S. Bancorp, and previously served U.S. Bancorp as senior vice president of small business, insurance and investments.

Alex P.M. Ko is head of Piper Jaffray Asia. Mr. Ko assumed his current title on February 2, 2009, after having served as chief executive officer of Piper Jaffray Asia since joining Piper Jaffray in October 2007. He joined Piper Jaffray in 2007 as part of our acquisition of Goldbond Capital Holdings Ltd., a Hong Kong-based investment banking firm that Mr. Ko founded in 2003. He served as chairman and chief executive officer of Goldbond Capital Holdings Ltd. from its founding until its sale to Piper Jaffray.

Robert W. Peterson is head of our Equities business, a position he has held since August 2006. Mr. Peterson joined Piper Jaffray in 1993 and served as head of our Private Client Services business from April 2005 until obtaining his current position. Prior to that, he served as head of investment research from April 2003 through March 2005, as head of equity research from November 2000 until April 2003 and as co-head of equity research from May 2000 until November 2000. From 1993 until May 2000, he was a senior research analyst for Piper Jaffray.

Jon W. Salveson is head of our Investment Banking business, a position he has held since May 2004. Mr. Salveson joined our investment banking department in 1993, and has served as a managing director in that department since January 2000.

Debbra L. Schoneman is our chief financial officer. Ms. Schoneman joined Piper Jaffray in 1990 and has held her current position since May 2008. She previously served as treasurer from August 2006 until May 2008. Prior to that, she served as finance director of our Corporate and Institutional Services business from July 2002 until July 2004 when the role was expanded to include our Public Finance Services division. From 1990 until July 2002, she served in various roles in the accounting and finance departments within Piper Jaffray.

David I. Wilson is CEO of Piper Jaffray Ltd., and has responsibility for our European institutional sales, trading and investment banking operations. Mr. Wilson has held his current position since 2005. Prior to that, he served as our head of European investment banking since he joined the firm in 2001.

M. Brad Winges is head of our Fixed Income Services business, a position he has held since January 2009. Mr. Winges joined Piper Jaffray in 1991 and served as head of Public Finance Services sales and trading from June 2005 until obtaining his current position. Prior to that, he served as head of municipal sales and trading from June 2003 until June 2005. From 1991 until June 2003, he was a municipal salesperson for Piper Jaffray.

ITEM 1A. RISK FACTORS.

Conditions in the financial markets and the economy generally adversely affected our businesses and profitability in 2008, and we expect these conditions to continue to adversely affect our business and profitability in 2009.

During the second half of 2007 and throughout 2008, significant weakness and volatility in the credit markets stemming from difficulties in the U.S. housing market spread to the broader financial market and led to a decline in global economic growth that has resulted in a significant recession. Specifically, declines in the value of subprime mortgages spread to all mortgage and real estate asset classes, then to leveraged bank loans and eventually to nearly all asset classes, including equities. The declines in asset values had collateral consequences that increased the downward pressure on valuations. For example, investor margin calls, collateral posting requirements among counterparties, and redemptions within asset management increased. The decrease in asset values, coupled with the loss of investor confidence, exacerbated the negative market conditions, which eventually led to the failure or merger of a number of prominent financial institutions. As a result, financial institutions have reduced their willingness to lend, reducing liquidity that has historically funded large sections of the U.S. economy.

In 2009, it is expected that these conditions and the recession will persist, causing a continuation of the unfavorable economic and market dynamics experienced in 2008, and possibly leading to a further decline in economic and market conditions. These conditions have had, and will continue to have, a direct and material impact on our results of operations and financial condition because performance in the financial services industry is heavily influenced by the overall strength of economic conditions and financial market activity. We expect the reduced transaction volumes, reduced revenue and reduced profitability that we experienced in almost all of our main businesses in 2008 to continue throughout 2009. For example:

- Our investment banking revenue, in the form of underwriting, placement and financial advisory fees from equity, acquisition and disposition, and public finance transactions, is directly related to the volume and value of the transactions as well as our role in these transactions. In 2008, the unfavorable market or economic conditions, which we expect to prevail during 2009, significantly reduced the volume and size of capital-raising transactions and advisory engagements for acquisitions and dispositions, thereby reducing the demand for our investment banking services and increasing price competition among financial services companies seeking such engagements. For example, only one initial public offering was completed in the fourth quarter of 2008, and the market for IPOs was at a thirty-year low at the conclusion of 2008. These conditions had, and will continue to have, a negative impact on our deal pipelines by reducing the backlog of transactions, the frequency and size of these transactions and the related underwriting, placement and advisory fees we receive for them, and our role in the transactions generating these fees.

- Changes in interest rates and uncertainty regarding the future direction of interest rates materially adversely affected certain of our businesses in 2008, including our Fixed Income Services and Public Finance Services businesses. Within our Public Finance Services business, for example, the extreme disruptions in the credit market during the third quarter of this year caused us to consolidate our TOB program onto our balance sheet, resulting in a $21.7 million loss in the third quarter and additional losses in the fourth quarter. Further, these disruptions had a significant impact on the fair value of certain interest rate swap contracts for which we have credit risk, which if terminated at current values could have a material adverse effect on our business and results of operations. With respect to our Fixed Income Services business, the disruptions in the credit market during the year significantly reduced the demand for short-term fixed income products, particularly auction rate securities and variable rate demand notes. During the year, we voluntarily increased our inventory positions in these securities, particularly auction rate securities, exposing ourselves to greater market risk and potential financial losses from the reduction in value of illiquid positions. We currently hold $18 million of auction rate securities as of December 31, 2008. With respect to variable rate demand notes, we initially increased our inventory positions, then began tendering the securities to the financial institutions that provided liquidity guarantees for the securities. If the turmoil in the credit markets continues, we could experience additional losses or disruptions in these businesses and others during 2009.

- During 2008, declines in the value of our positions relating to proprietary trading, investing and similar activities, resulted in reduced revenues and financial losses. For example, our high-yield and structured products business specializes in the secondary sales and trading market for aircraft finance debt, and the value of our positions related to this debt declined in 2008, contributing to financial losses for the year. We could experience similar reductions in the value of our inventory positions in 2009, which would have a negative impact on our business and results of operations.
- We may experience a decline in institutional sales and trading revenue in 2009, particularly with respect to our Equities business, due to significantly reduced market values and asset levels, reduced commissions resulting from these declines, lower volume levels as volatility declines, and a reduction in the number of market participants, particularly hedge funds. A decline in institutional and trading revenue as a result of these factors would have a negative impact on our business and results of operations, and this impact could be material.
- The downturn in the financial markets, which has reduced asset valuations, has adversely impacted our asset management business by reducing the value of assets under management, and as a result, the revenues associated with this business. Continued declines in asset values within the financial markets will continue to negatively impact our asset management business.

In addition, concerns about the profitability and solvency of financial institutions increased during the year following the forced merger or failure of a number of prominent financial institutions, and these concerns had a negative impact on our business during 2008 in certain limited respects. Further concerns about the profitability and solvency of financial institutions during 2009 could have a more significant impact on our business, including with respect to our relationships with clients, counterparties and liquidity sources. For example, recent concerns over the possible nationalization of prominent financial institutions have negatively impacted the stock price of numerous financial services companies, including ours, and could have other negative impacts on our operations and financial results.

It is difficult to predict how long these uncertain and unfavorable market and economic conditions and the accompanying recession will continue, whether contagion from the global credit crisis will cause market and economic conditions to continue to deteriorate, and which of our markets, products and businesses will continue to be adversely affected and to what degree. Currently, we anticipate these challenging market conditions will persist throughout 2009. We expect that equity and debt financing and acquisition and disposition activity will remain depressed through 2009. Our financial performance will be negatively impacted by these conditions because our business depends heavily on these markets, particularly equity financing, public finance and acquisition and disposition activity.

The cyclical nature of the economy and this industry leads to volatility in our financial results, including our operating margins, compensation ratios and revenue and expense levels. In the current climate, our ability to attain break-even performance at reduced revenue levels may be limited by the fixed nature of certain expenses, the impact from unanticipated losses or expenses during the year and the inability to scale back costs in a timeframe to match decreases in revenue related changes in market and economic conditions. As a result, our financial results may vary significantly from quarter to quarter and year to year.

Developments in specific sectors of the economy during 2008 adversely affected, and may in the future adversely affect, our business and profitability.

Our results for a particular period may be disproportionately impacted by declines in specific sectors of the economy due to our business mix and focus areas. For example:

- We operate our investment banking business in eight equity focus sectors, which include alternative energy, business services, consumer, financial institutions, health care, industrial growth, media and telecommunications, and technology. In 2008, these sectors all experienced a downturn as the recession impacted almost all businesses, which materially adversely affected our business and results of operations. If the business environment for our focus sectors continues to suffer, impacts one or more sectors 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.

- Our international revenue is principally derived from our activities in Europe and Asia, and the global recession has had a significant negative impact on economic and market conditions in these areas of the world, which reduced our revenue from these activities. We expect the decline in economic and capital markets activity in Europe and Asia to persist in 2009, which will continue to materially adversely affect our business and results of operations.
- Our fixed income activities are centered on public finance investment banking and municipal sales and trading within the higher education, housing, state and local government, healthcare, and hospitality sectors. Our high-yield and structured product activities specialize in the secondary sales and trading market for aircraft finance debt. Volatility and market conditions in these sectors during 2008, particularly with respect to the market for aircraft finance debt, materially adversely affected our results. Continued declines in these sectors and markets would have a further negative impact on our results of operations in 2009. For example, we participate in the market for low- or non-rated public finance investment banking transactions, and this market has been, and we expect it to continue to be, challenged by current market conditions. An increased inability to conduct transactions in this market in 2009 could have a significant negative impact on our business. Further, we do not participate in significant segments of the fixed income market and, as a result, our operating results in this area may not correlate with the results of other firms or the fixed income market generally. For example, one or more of these segments may recover during 2009 and we would not benefit from the recovery if we are not a participant in that segment.
- A significant portion of our institutional sales and trading revenues is generated by hedge funds and related entities that have been negatively impacted by the current market environment. If a significant number of market participants that we serve as clients cease operations, a failure to replace this lost business could materially adversely affect our business and results of operations. Further, a relatively small number of institutional clients generate a meaningful portion of our institutional sales and trading revenues and our asset management revenues are derived from one key client. A failure to replace this business could also have a significant negative impact on our business.

Our businesses, profitability and liquidity may be adversely affected by deterioration in the credit quality of, or defaults by, third parties who owe us money, securities or other assets.

The amount and duration of our credit exposures have been increasing over the past several years, exposing us to the increased risk that third parties that owe us money, securities or other assets will not perform their obligations. These parties may default on their obligations to us due to bankruptcy, lack of liquidity, operational failure or other reasons. Deterioration in the credit quality of third parties whose securities or obligations we hold could result in losses and adversely affect our ability to rehypothecate or otherwise use those securities or obligations for liquidity purposes. A significant downgrade in the credit ratings of our counterparties could also have a negative impact on our results. Default rates, downgrades and disputes with counterparties as to the valuation of collateral tend to increase in times of market stress and illiquidity. Although we regularly review credit exposures to specific clients and counterparties and to specific industries that we believe may present credit concerns, default risk may arise from events or circumstances that are difficult to detect or foresee. In 2008, the market events affecting large investment banks created losses and uncertainty in several of our businesses. For example, we incurred losses following the bankruptcy of Lehman Brothers, and the market's perception of the liquidity position of other large investment banks affected the counterparty that supports our customer interest rate swap contracts, which exposed us to an increased risk of losses. Also, concerns about, or a default by, one institution generally leads to losses, significant liquidity problems, or defaults by other institutions, which in turn adversely affects our business.

Particular activities or products within our business have exposed us to increasing credit risk, including interest rate swap contracts with customer credit exposure, auction rate securities inventory positions, merchant banking investments (including bridge-loan financings), counterparty risk with a major financial institution related to customer interest rate swap contracts without customer credit exposure, investment banking and advisory fee receivables, customer margin accounts, and trading counterparty activities related to settlement and similar activities. With respect to interest rate swap contracts with customer exposure, we have counterparty credit exposure with six counterparties totaling $42.4 million at December 31, 2008. This counterparty credit exposure is part of our match-book derivative program that primarily consists of interest rate swaps. Of these six counterparties, one represents 49%, or $20.9 million in credit exposure as of December 31, 2008. This exposure is a result of credit market disruptions during the fourth quarter of 2008, which had a significant negative impact on the fair value of these interest rate swap contracts. The reduction in the fair value of the swap contracts increased the amount that would be payable to us in the event of a termination of the contract, and resulted in a corresponding increase in the amount that we would owe to our hedging counterparty. The amount we owe to our hedging counterparty is our exposure. Specifically, if the interest rate swap contracts for these six counterparties were to terminate at their current fair value, which we believe to be unlikely, it is possible that our counterparty would be unable to make its payment to us and we would still be obligated to pay our hedging counterparty an amount equal to our exposure. With respect to bridge loans, our credit exposure consisted of two financings totaling $19.8 million at December 31, 2008. One bridge loan totaling $11.9 million was in default as of December 31, 2008; however, we currently believe that the value of our secured collateral exceeds $11.9 million and have not recorded an impairment loss for this loan as of December 31, 2008. Non-performance by our counterparties, clients and others, including with respect to our interest rate swap contracts with customer credit exposures and our bridge loan financings, could result in losses, potentially material, and thus have a significant adverse effect on our business and results of operations.

Concentration of risk increases the potential for significant losses.

Concentration of risk increases the potential for significant losses in our sales and trading, proprietary trading and underwriting businesses. We have committed capital to these businesses, and we may take substantial positions in particular types of securities and/or issuers. This concentration of risk may cause us to suffer losses even when economic and market conditions are generally favorable for our competitors. Further, disruptions in the credit markets can make it difficult to hedge exposures effectively and economically. We also experience concentration of risk in our role as remarketing agent and broker-dealer for certain types of securities, including in our role as remarketing agent for approximately $7.5 billion of variable rate demand notes. In an effort to facilitate liquidity, we may (but are not required to) increase our inventory positions in securities, exposing ourselves to greater concentration of risk and potential financial losses from the reduction in value of illiquid positions. Further, inventory positions that benefit from a liquidity provider, such as certain types of variable rate demand notes, may be adversely affected by an event that results in termination of the liquidity provider's obligation, such as an insolvency or ratings downgrade of the monoline insurer.

Further, the trend in capital markets in recent years has been toward larger and more frequent commitments of capital by financial services firms, and we were in the initial stages of increasing our activity in this regard before the recent economic decline. This concentration of risk has increased the potential for significant losses in our sales and trading, derivatives and underwriting areas, where we have committed capital and taken substantial positions in particular types of securities and/or issuers. As noted above, we have concentrated counterparty credit exposure with six counterparties totaling $42.4 million at December 31, 2008, as part of our match-book derivative program that primarily consists of interest rate swaps. Of these six counterparties, one represents 49%, or $20.9 million in credit exposure as of December 31, 2008. Our results of operations for a given period may be affected by the nature and scope of these activities, and such activities will subject us to market fluctuations and volatility that may adversely affect the value of our positions, which could result in significant losses and reduce our revenues and profits.

An inability to access capital readily or on terms favorable to us could impair our ability to fund operations and could jeopardize our financial condition.

Liquidity, or ready access to funds, is essential to our business. Several large financial institutions failed or merged with others during 2008 as a result of the liquidity crisis that resulted from significant declines in asset values held by these institutions. To fund our business, we maintain a cash position and rely on bank financing as well as other funding sources such as the repurchase markets. The majority of our bank financing consists of uncommitted credit lines, which could become unavailable to us on relatively short notice. In 2008, we entered into a $250 million committed credit facility of which $125 million may only be drawn with specific municipal securities as collateral. Our access to our uncommitted funding sources could be hindered by many factors, and many of these factors we cannot control, such as economic downturns, the disruption of financial markets, the further failure or consolidation of other financial institutions, negative news about the financial industry generally or us specifically. We could experience further disruptions with our credit facilities in the future, including the loss of liquidity sources and/or increased borrowing costs, if lenders or investors develop a negative perception of our long-term or short- term financial prospects, which could result from further decreased business activity. Our liquidity also could be impacted by the activities resulting in concentration of risk, including proprietary activities from long-term investments and/or investments in specific markets or products without liquidity. Our access to funds may be impaired if regulatory authorities take significant action against us, or if we discover that one of our employees has engaged in serious unauthorized or illegal activity.

In the future we may need to incur debt or issue equity in order to fund our working capital requirements, as well as to execute our growth initiatives that may include acquisitions and other investments. Also, we currently do not have a credit rating, which could adversely affect our liquidity and competitive position by increasing our borrowing costs and limiting access to sources of liquidity that require a credit rating as a condition to providing funds.

The financial services industry and the markets in which we operate are subject to systemic risk that could adversely affect our business and results.

Participants in the financial services industry and markets increasingly are closely interrelated, for example as a result of credit, trading, clearing, technology and other relationships between them. A significant adverse development with one participant (such as a bankruptcy or default) will spread to others and lead to significant concentrated or market-wide problems (such as defaults, liquidity problems or losses) for other participants, including us. This systemic risk was evident during 2008 following the demise of Bear Stearns and Lehman Brothers, and the resulting events (sometimes described as "contagion") had a negative impact on the remaining industry participants, including us. As noted above, we incurred losses following the bankruptcy of Lehman Brothers, and our counterparty risk with the financial institution that supports our customer interest rate swap activities increased as the contagion spread.

Further, the control and risk management infrastructure of the markets in which we operate often is outpaced by financial innovation and growth in new types of securities, transactions and markets. Systemic risk is inherently difficult to assess and quantify, and its form and magnitude can remain unknown for significant periods of time.

An inability to readily divest or transfer trading positions may result in financial losses to our business.

Timely divestiture or transfer of our trading positions, including equity, fixed income and other securities positions, can be impaired by decreased trading volume, increased price volatility, rapid changes in interest rates, concentrated trading positions, limitations on the ability to transfer positions in highly specialized or structured transactions and changes in industry and government regulations. This is true for both customer transactions that we facilitate as agent as well as proprietary trading positions that we maintain. While we hold a security, we are vulnerable to price and value fluctuations and may experience financial losses to the extent the value of the security decreases and we are unable to timely divest, hedge or transfer our trading position in that security. The value may decline as a result of many factors, including issuer-specific, market or geopolitical events. Changing market conditions also are increasing the risks associated with trading positions. For example, market dynamics in late 2007 and early 2008 reduced liquidity for positions in short-term fixed income products, particularly auction rate securities. In an effort to facilitate liquidity for these products, we voluntarily increased our inventory positions in these products, particularly auction rate securities, exposing ourselves to greater market risk and potential financial losses from the reduction in value of illiquid positions. Although we have significantly reduced our positions in auction rate securities during the year, we continue to hold $18 million of auction rate securities as of December 31, 2008.

In addition, securities firms increasingly are committing to purchase large blocks of stock from issuers or significant shareholders, and block trades increasingly are being effected without an opportunity for us to pre-market the transaction, which increases the risk that we may be unable to resell the purchased securities at favorable prices. In addition, increasing reliance on revenues from hedge funds and hedge fund advisors, which are less regulated than many investment company and advisor clients, may expose us to greater risk of financial loss from unsettled trades than is the case with other types of institutional investors. Concentration of risk may result in losses to us even when economic and market conditions are generally favorable for others in our industry.

The use of estimates and valuations in measuring fair value involve significant estimation and judgment by management.

We make various estimates that affect reported amounts and disclosures. Broadly, those estimates are used in measuring fair value of certain financial instruments, accounting for goodwill and intangible assets, establishing provisions for potential losses that may arise from litigation, regulatory proceedings and tax examinations, and valuing equity-based compensation awards. Estimates are based on available information and judgment. Therefore, actual results could differ from our estimates and that difference could have a material effect on our consolidated financial statements. For example, in the fourth quarter of 2008, we reported a $127.1 million (after-tax) charge for impairment of goodwill related to our capital markets business, largely a legacy from the acquisition of Piper Jaffray by U.S. Bancorp in 1998 and $10.9 million (after-tax) of losses associated with aircraft structured products inventory and the remaining TOB municipal bond portfolio following consolidation of the program. With respect to goodwill, further deterioration in economic or market conditions during 2009 and beyond could result in additional impairment charges, which could materially adversely affect our results of operations.

With respect to measuring the fair value of certain financial instruments, trading securities owned, trading securities owned and pledged as collateral, and trading securities sold, but not yet purchased consist of financial instruments recorded at fair value, and unrealized gains and losses related to these financial instruments are reflected on our consolidated statements of operations. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. These valuation techniques involve management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments' complexity. For example, the valuation of our derivative positions requires significant estimation and judgment by management and therefore is subject to significant subjectivity. Further, the present market environment has caused even the markets for transferable instruments to become substantially more illiquid and difficult to value. We also expect valuation to be increasingly influenced by external market and other factors, including implementation of recent SEC and FASB guidance on fair value accounting, issuer specific credit deteriorations and deferral and default rates, rating agency actions, and the prices at which observable market transactions occur. The current market environment significantly limits our ability to mitigate our exposures by selling or hedging our exposures. Our future results of operations and financial condition may be adversely affected by the valuation adjustments that we apply to these financial instruments.

Risk management processes may not fully mitigate exposure to the various risks that we face, including market risk, liquidity risk and credit risk.

We continue to refine our risk management techniques, strategies and assessment methods on an ongoing basis. However, risk management techniques and strategies, both ours and those available to the market generally, may not be fully effective in mitigating our risk exposure in all economic market environments or against all types of risk. For example, we might fail to identify or anticipate particular risks that our systems are capable of identifying, or the systems that we use, and that are used within the industry generally, may not be capable of identifying certain risks. Some of our strategies for managing risk are based upon our use of observed historical market behavior. We apply statistical and other tools to these observations to quantify our risk exposure. Any failures in our risk management techniques and strategies to accurately quantify our risk exposure could limit our ability to manage risks. In addition, any risk management failures could cause our losses to be significantly greater than the historical measures indicate. Further, our quantified modeling does not take all risks into account. Our more qualitative approach to managing those risks could prove insufficient, exposing us to material unanticipated losses.

The volume of anticipated investment banking transactions may differ from actual results.

The completion of anticipated investment banking transactions in our pipeline is uncertain and beyond our control, and our investment banking revenue is typically earned upon the successful completion of a transaction. In most cases we receive little or no payment for investment banking engagements that do not result in the successful completion of a transaction. For example, a client's acquisition transaction may be delayed or terminated because of a failure to agree upon final terms with the counterparty, failure to obtain necessary regulatory consents or board or stockholder approvals, failure to secure necessary financing, adverse market conditions or unexpected financial or other problems in the client's or counterparty's business. During 2008, it was not uncommon for transactions to be delayed or terminated as a result of the adverse market conditions that were experienced. If the parties failed to complete a transaction on which we were advising or an offering in which we were participating, we earned little or no revenue from the transaction and may have incurred significant expenses (for example, travel and legal expenses) associated with the transaction. Accordingly, our business is highly dependent on market conditions as well as the decisions and actions of our clients and interested third parties, and the number of engagements we have at any given time (and any characterization or description of our deal pipelines) is subject to change and may not necessarily result in future revenues.

Financing and advisory services engagements are singular in nature and do not generally provide for subsequent engagements.

Even though we work to represent our clients at every stage of their lifecycle, we are typically retained on a short-term, engagement-by-engagement basis in connection with specific capital markets or mergers and acquisitions transactions. In particular, our revenues related to acquisition and disposition transactions tend to be highly volatile and unpredictable or "lumpy" from quarter to quarter due to the one-time nature of the transaction and the size of the fee. As a result, high activity levels in any period are not necessarily indicative of continued high levels of activity in any subsequent period. If we are unable to generate a substantial number of new engagements and generate fees from the successful completion of those transactions, our business and results of operations will likely be adversely affected.

Our stock price may fluctuate as a result of several factors, including but not limited to changes in our revenues and operating results.

We have experienced, and expect to experience in the future, fluctuations in the market price of our common stock due to factors that relate to the nature of our business, including but not limited to changes in our revenues and operating results. Our business, by its nature, does not produce steady and predictable earnings on a quarterly basis, which causes fluctuations in our stock price that may be significant. During 2008, our stock price was negatively impacted by lower revenues, operating losses and negative investor sentiment affecting stock prices of the financial services industry as a whole. Other factors that have affected, and may further affect, our stock price include changes in or news related to economic or market events or conditions, changes in market conditions in the financial services industry, including the impact of recent concerns regarding the possible nationalization of certain prominent financial institutions, developments in regulation affecting our business, failure to meet the expectations of market analysts and changes in recommendations or outlooks by market analysts.

During 2008, the stock price of many financial services companies was adversely affected by aggressive short selling, resulting in the issuance of an emergency order by the SEC on September 18, 2008 that prohibited short sales in the stock of numerous financial services companies, including ours. This emergency order has now expired, and our stock price may be negatively impacted in future periods by aggressive short selling in our stock.

We may not be able to compete successfully with other companies in the financial services industry who often have significantly greater resources that we do.

Despite the negative events impacting the industry in 2008, the financial services industry remains extremely competitive, and our revenues and profitability will suffer if we are unable to compete effectively. We compete generally on the basis of such factors as quality of advice and service, reputation, price, product selection, transaction execution and financial resources. Pricing and other competitive pressures in investment banking, including the trends toward multiple book runners, co-managers and multiple financial advisors handling transactions, have continued and could adversely affect our revenues. In addition, we could experience increased pricing pressure from clients in this difficult market environment as clients look for ways to reduce costs, which would be exacerbated by increased competition for the relatively small number of transactions occurring in the current market.

We also remain at a competitive disadvantage given our relatively small size compared to some of our competitors. Large financial services firms have a larger capital base, greater access to capital and greater resources than we have, affording them greater capacity for risk and potential for innovation, an extended geographic reach and flexibility to offer a broader set of products. For example, these firms have used their resources and larger capital base to take advantage of growth in international markets and to support their investment banking business by offering credit products to corporate clients, which is a significant competitive advantage. With respect to our Fixed Income Services and Public Finance Services businesses, it is more difficult for us to diversify and differentiate our product set, and our fixed income business mix currently is concentrated in traditional categories, potentially with less opportunity for growth than other firms who have grown their fixed income businesses by investing in, developing and offering non-traditional products.

Recently, two large investment banks have obtained approval to become bank holding companies with the Board of Governors of the Federal Reserve System, which will provide these institutions with additional sources of liquidity from the federal government and additional capital consisting of insured bank deposits. Because we are smaller, the additional regulatory burdens and potential restrictions on our business limit the feasibility of becoming a bank holding company, which may be a competitive disadvantage in the current market.

Our ability to attract, develop and retain highly skilled and productive employees is critical to the success of our business.

Historically, the market for qualified employees within the financial services industry has been marked by intense competition, and the performance of our business may suffer to the extent we are unable to attract and retain employees effectively, particularly given the relatively small size of our company and our employee base compared to some of our competitors and the geographic locations in which we operate. The primary sources of revenue in each of our business lines are commissions and fees earned on advisory and underwriting transactions and customer accounts managed by our employees, who have historically been recruited by other firms and in certain cases are able to take their client relationships with them when they change firms. Some specialized areas of our business are operated by a relatively small number of employees, the loss of any of whom could jeopardize the continuation of that business following the employee's departure.

Further, the difficult operating environment in 2008 caused us to significantly reduce our incentive compensation, to minimize the fixed component of our compensation costs and to reduce the number of employees across nearly all of our businesses. We also have paid a substantial portion of our annual bonus compensation in recent years in the form of equity, which declined in value during 2008 as the market price of our common stock declined. These actions and events may result in the loss of some of our professionals or the inability to recruit additional professionals at compensation levels that are within our target range for compensation and benefits expense. Going forward, our ability to retain and recruit also may be hindered if we limit our aggregate annual compensation and benefits expense as a percentage of annual net revenues.

Our underwriting and market-making activities may place our capital at risk.

We may incur losses and be subject to reputational harm to the extent that, for any reason, we are unable to sell securities we purchased as an underwriter at the anticipated price levels. As an underwriter, we also are subject to heightened standards regarding liability for material misstatements or omissions in prospectuses and other offering documents relating to offerings we underwrite. As a market maker, we may own large positions in specific securities, and these undiversified holdings concentrate the risk of market fluctuations and may result in greater losses than would be the case if our holdings were more diversified.

We enter into off-balance sheet arrangements that may be required to be consolidated on our financial statements based on future events outside of our control, including changes in complex accounting standards.

In the normal course of our business, we enter into various transactions with special purpose entities ("SPEs") that we do not consolidate onto our balance sheet, typically because we do not have a controlling financial interest as defined under applicable accounting standards. The assessment of whether the accounting criteria for consolidation of an SPE are met requires management to exercise significant judgment. If certain events occur that require us to re-assess our initial determination of non-consolidation or if our judgment of non-consolidation is in error, we could be required to consolidate the assets and liabilities of an SPE onto our consolidated balance sheet and recognize its future gains or losses in our consolidated statement of income. For example, certain events during 2008 caused us to consolidate our tender option bond ("TOB") program at the conclusion of the third quarter, which was our primary involvement with SPEs. The TOB program securitized approximately $300 million of municipal bonds through the sale of the bonds into an SPE. We determined that our TOB program no longer qualified for off- balance sheet accounting treatment because we believed that we would have material involvement with the SPEs under the reimbursement obligation to the third-party financial institution that acted as the liquidity provider for the TOB program. This material involvement resulted from volatility in the credit markets that caused a decline in the market value of municipal securities. As a result, we consolidated $258.2 million of municipal bonds held in off-balance sheet trusts established under the TOB program onto our balance sheet, resulting in a loss of $21.7 million in the third quarter of 2008. Other than the discontinued TOB program, our involvement with SPEs typically involves partnerships or limited liability companies, established for the purpose of investing in private or public equity securities or various partnership entities. For reasons outside of our control, including changes in existing accounting standards, or interpretations of those standards, the risk of consolidation of these SPEs could increase. Further consolidation would affect the size of our consolidated balance sheet and related funding requirements, and if the SPE's assets include unrealized losses, could require us to recognize additional losses.

Use of derivative instruments as part of our risk management techniques may not effectively hedge the risks associated with activities in certain of our businesses.

We may use futures, options, swaps or other securities to hedge inventory. For example, our fixed income business provides swaps and other interest rate hedging products to public finance clients, which our company in turn hedges through a counterparty. In addition, our fixed income business managed a portfolio of interest rate swaps that hedged the residual cash flows resulting from our TOB program. There are risks inherent in our use of these products, including counterparty exposure and basis risk. Counterparty exposure refers to the risk that the amount of collateral in our possession on any given day may not be sufficient to fully cover the current value of the swaps if a counterparty were to suddenly default. Basis risk refers to risks associated with swaps where changes in the value of the swaps may not exactly mirror changes in the value of the cash flows they are hedging. In the fourth quarter of 2008, our operating results were negatively impacted by the portfolio of interest rate swaps that hedged our discontinued TOB program, after volatility in the credit markets caused a dislocation between the hedging swaps and the value of the cash flows associated with the TOB program. Going forward, it is possible that we may incur additional losses from our remaining exposure to derivative and interest rate hedging products and the increased use of these products in the future. For example, the derivative instruments that we use to hedge the risks associated with interest rate swap contracts with public finance clients where we have retained the credit risk also were impacted by the recent volatility. If these interest rate swap contracts are terminated as a result of a client credit event, we may incur losses if we make a payment to our hedging counterparty without recovering any amounts from our client.

Our business is subject to extensive regulation in the jurisdictions in which we operate, and a significant regulatory action against our company may have a material adverse financial effect or cause significant reputational harm to our company.

As a participant in the financial services industry, we are subject to complex and extensive regulation of many aspects of our business by U.S. federal and state regulatory agencies, self-regulatory organizations (including securities exchanges) and by foreign governmental agencies, regulatory bodies and securities exchanges. Specifically, our operating subsidiaries include broker dealer and related securities entities organized in the United States, the United Kingdom and the Hong Kong Special Administrative Region of the People's Republic of China ("PRC"). Each of these entities is registered or licensed with the applicable local securities regulator and is a member of or participant in one or more local securities exchanges and is subject to all of the applicable rules and regulations promulgated by those authorities. We also maintain a representative office in the PRC, and this office is registered with the PRC securities regulator and subject to applicable rules and regulations of the PRC.

Generally, the requirements imposed by our regulators are designed to ensure the integrity of the financial markets and to protect customers and other third parties who deal with us. These requirements are not designed to protect our shareholders. Consequently, broker-dealer regulations often serve to limit our activities, through net capital, customer protection and market conduct requirements and restrictions on the businesses in which we may operate or invest. In addition, we must comply with asset management regulations, including customer disclosures to protect investors. Compliance with many of these regulations entails a number of risks, particularly in areas where applicable regulations may be newer or unclear. In addition, regulatory authorities in all jurisdictions in which we conduct business may intervene in our business and we and our employees could be fined or otherwise disciplined for violations or prohibited from engaging in some of our business activities.

Over the last several years we have expanded our international operations, including through the expansion of our European-based business located in the United Kingdom and the acquisition of Asia-based Goldbond Capital Holdings Ltd. Each of these businesses has subjected us to a unique set of regulations, including regarding capital adequacy, customer protection and business conduct, which has required us to devote increasing resources to our compliance efforts and exposed us to additional regulatory risk in each of these jurisdictions.

In light of current conditions in the global financial markets and the global economy, regulators have increased their focus on the regulation of the financial services industry. Most recently, governments in the U.S. and abroad have intervened on an unprecedented scale, responding to the stresses experienced in the global financial markets. These events have in turn led to proposals for legislation that could substantially intensify the regulation of the financial services industry, such proposals are expected to be introduced in the U.S. Congress, in state legislatures and around the world. The agencies regulating the financial services industry also frequently adopt changes to their regulations. Substantial regulatory and legislative initiatives, including a comprehensive overhaul of the regulatory system in the U.S. and rules to more closely regulate derivative transactions, are possible in the years ahead. We are unable to predict whether any of these initiatives will succeed, which form they will take, or whether any additional changes to statutes or regulations, including the interpretation or implementation thereof, will occur in the future. Any such action could affect us in substantial and unpredictable ways and could have an adverse effect on our business, financial condition and results of operations.

Our business also subjects us to the complex income tax laws of the jurisdictions in which we have business operations, and these tax laws may be subject to different interpretations by the taxpayer and the relevant governmental taxing authorities. We must make judgments and interpretations about the application of these inherently complex tax laws when determining the provision for income taxes. We are subject to contingent tax risk that could adversely affect our results of operations, to the extent that our interpretations of tax laws are disputed upon examination or audit, and are settled in amounts in excess of established reserves for such contingencies.

The effort to combat money laundering also has become a high priority in governmental policy with respect to financial institutions. The obligation of financial institutions, including ourselves, to identify their customers, watch for and report suspicious transactions, respond to requests for information by regulatory authorities and law enforcement agencies, and share information with other financial institutions, has required the implementation and maintenance of internal practices, procedures and controls which have increased, and may continue to increase, our costs. Any failure with respect to our programs in this area could subject us to serious regulatory consequences, including substantial fines, and potentially other liabilities.

Our exposure to legal liability is significant, and could lead to substantial damages.

We face significant legal risks in our businesses. These risks include potential liability under securities laws and regulations in connection with our investment banking and other securities transactions. The volume and amount of damages claimed in litigation, arbitrations, regulatory enforcement actions and other adversarial proceedings against financial services firms have increased in recent years. Our experience has been that adversarial proceedings against financial services firms typically increase during a market downturn. We also are subject to claims from disputes with our employees and our former employees under various circumstances. Risks associated with legal liability often are difficult to assess or quantify and their existence and magnitude can remain unknown for significant periods of time, making the amount of legal reserves related to these legal liabilities difficult to determine and subject to future revision. Legal or regulatory matters involving our directors, officers or employees in their individual capacities also may create exposure for us because we may be obligated or may choose to indemnify the affected individuals against liabilities and expenses they incur in connection with such matters to the extent permitted under applicable law. In addition, like other financial services companies, we may face the possibility of employee fraud or misconduct. The precautions we take to prevent and detect this activity may not be effective in all cases and we cannot assure you that we will be able to deter or prevent fraud or misconduct. Exposures from and expenses incurred related to any of the foregoing actions or proceedings could have a negative impact on our results of operations and financial condition. In addition, future results of operations could be adversely affected if reserves relating to these legal liabilities are required to be increased or legal proceedings are resolved in excess of established reserves.

We have experienced significant pricing pressure in areas of our business, which may impair our revenues and profitability.

In recent years we have experienced significant pricing pressures on trading margins and commissions in equity and fixed income trading. In the fixed income market, regulatory requirements have resulted in greater price transparency, leading to increased price competition and decreased trading margins. In the equity market, we have experienced increased pricing pressure from institutional clients to reduce commissions, and this pressure has been augmented by the increased use of electronic and direct market access trading, which has created additional competitive downward pressure on trading margins. The trend toward using alternative trading systems is continuing to grow, which may result in decreased commission and trading revenue, reduce our participation in the trading markets and our ability to access market information, and lead to the creation of new and stronger competitors. Institutional clients also have pressured financial services firms to alter "soft dollar" practices under which brokerage firms bundle the cost of trade execution with research products and services. Some institutions are entering into arrangements that separate (or "unbundle") payments for research products or services from sales commissions. These arrangements have increased the competitive pressures on sales commissions and have affected the value our clients place on high-quality research. Additional pressure on sales and trading revenue may impair the profitability of our business. Moreover, our inability to reach agreement regarding the terms of unbundling arrangements with institutional clients who are actively seeking such arrangements could result in the loss of those clients, which would likely reduce our institutional commissions. We believe that price competition and pricing pressures in these and other areas will continue as institutional investors continue to reduce the amounts they are willing to pay, including by reducing the number of brokerage firms they use, and some of our competitors seek to obtain market share by reducing fees, commissions or margins.

We also could experience increased pricing pressure from clients in this difficult market environment as clients look for ways to reduce costs, which will be exacerbated by increased competition for the relatively small number of transactions occurring in the current market. In addition, we expect the equity sales and trading market to be negatively impacted by reduced market values and asset levels, reduced commissions resulting from these declines, lower volume levels as volatility declines, and a reduction in the number of market participants, particularly hedge funds. These factors will have a negative impact on our institutional sales and trading business that could be material.

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

We expect to grow in part through corporate development activities that include acquisitions, joint ventures and minority stakes. For example, we expanded our business into Asia through the acquisition of Goldbond Capital Holdings Ltd., and into asset management through the acquisition of FAMCO. These corporate development activities, and our future corporate development activities, are accompanied by a number of risks. Costs or difficulties relating to a transaction, including integration of products, employees, technology systems, accounting systems and management controls, may be difficult to predict accurately and be greater than expected causing our estimates to differ from actual results. We may be unable to retain key personnel after the transaction, and the transaction may impair relationships with customers and business partners. Also, our share price could decline after we announce or complete a transaction if investors view the transaction as too costly or unlikely to improve our competitive position. Longer-term, these activities require increased investment in management personnel, financial and management systems and controls and facilities, which, in the absence of continued revenue growth, would cause our operating margins to decline. More generally, any difficulties that we experience could disrupt our ongoing business, increase our expenses and adversely affect our operating results and financial condition. We also may be unable to achieve anticipated benefits and synergies from the transaction as fully as expected or within the expected time frame. Divestitures or elimination of existing businesses or products could have similar effects.

To the extent that we pursue corporate development activities outside of the United States, including acquisitions, joint ventures and minority stakes, we will be subject to political, economic, legal, operational and other risks that are inherent in operating in a foreign country. These risks include possible nationalization, expropriation, price controls, capital controls, exchange controls and other restrictive governmental actions, as well as the outbreak of hostilities. In many countries, the laws and regulations applicable to the securities and financial services industries are uncertain and evolving, and it may be difficult for us to determine the exact requirements of local laws in every market. Our inability to remain in compliance with local laws in a particular foreign market could have a significant and negative effect not only on our businesses in that market but also on our reputation generally. We are also subject to the enhanced risk that transactions we structure (for example, joint ventures) might not be legally enforceable in the relevant jurisdictions.

Our technology systems, including outsourced systems, are critical components of our operations, and failure of those systems or other aspects of our operations infrastructure may disrupt our business, cause financial loss and constrain our growth.

We typically transact thousands of securities trades on a daily basis across multiple markets. Our data and transaction processing, financial, accounting and other technology and operating systems are essential to this task. A system malfunction or mistake made relating to the processing of transactions could result in financial loss, liability to clients, regulatory intervention, reputational damage and constraints on our ability to grow. We outsource a substantial portion of our critical data processing activities, including trade processing and back office data processing. For example, we have entered into contracts with Broadridge Financial Solutions, Inc. pursuant to which Broadridge handles our trade and back office processing, and Unisys Corporation, pursuant to which Unisys supports our data center and network management technology needs. We also contract with third parties for our market data services, which constantly broadcast news, quotes, analytics and other relevant information to our employees. We contract with other vendors to produce and mail our customer statements and to provide other services. In the event that any of these service providers fails to adequately perform such services or the relationship between that service provider and us is terminated, we may experience a significant disruption in our operations, including our ability to timely and accurately process transactions or maintain complete and accurate records of those transactions.

Adapting or developing our technology systems to meet new regulatory requirements, client needs and industry demands also is critical for our business. Introduction of new technologies present new challenges on a regular basis. We have an ongoing need to upgrade and improve our various technology systems, including our data and transaction processing, financial, accounting and trading systems. This need could present operational issues or require significant capital spending. It also may require us to make additional investments in technology systems and may require us to reevaluate the current value and/or expected useful lives of our technology systems, which could negatively impact our results of operations.

Secure processing, storage and transmission of confidential and other information in our computer systems and networks also is critically important to our business. We take protective measures and endeavor to modify them as circumstances warrant. However, our computer systems, software and networks may be vulnerable to unauthorized access, computer viruses or other malicious code, inadvertent, erroneous or intercepted transmission of information (including by e-mail), and other events that could have an information security impact. If one or more of such events occur, this potentially could jeopardize our or our clients' or counterparties' confidential and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our, our clients', our counterparties' or third parties' operations. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by us.

A disruption in the infrastructure that supports our business due to fire, natural disaster, health emergency (for example, a disease pandemic), power or communication failure, act of terrorism or war may affect our ability to service and interact with our clients. If we are not able to implement contingency plans effectively, any such disruption could harm our results of operations.

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

As a result of our acquisition of FAMCO in the third quarter of 2007, we significantly expanded our asset management business. Our revenues from this business are primarily derived from management fees which are based on assets under management. Our ability to maintain or increase assets under management is subject to a number of factors, including investors' perception of our past performance, market or economic conditions, competition from other fund managers and our ability to negotiate terms with major investors.

Investment performance is one of the most important factors in retaining existing clients and competing for new asset management business. Poor investment performance, such as the investment performance experienced in 2008, and other competitive factors could reduce our revenues and impair our growth in many ways: existing clients may withdraw funds from our asset management business in favor of better performing products or a different investment style or focus; our capital investments in our investment funds or the seed capital we have committed to new asset management products may diminish in value or may be lost; and our key employees in the business may depart, whether to join a competitor or otherwise.

To the extent our future investment performance is perceived to be poor in either relative or absolute terms, our asset management revenues will likely be reduced and our ability to raise new funds will likely be impaired. Even when market conditions are generally favorable, our investment performance may be adversely affected by our investment style and the particular investments that we make. Further, our asset management business depends in part on a key client, and the loss of this client would have an adverse affect on our asset management revenues.

In addition, over the past several years, the size and number of investment funds, including exchange-traded funds, hedge funds and private equity funds, has continued to increase. If this trend continues, it is possible that it will become increasingly difficult for us to raise capital for new investment funds or price competition may mean that we are unable to maintain our current fee structure.

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

To the extent we conduct business outside the United States, for example in Europe and Asia, we are subject to risks including, without limitation, the risk that we will be unable to provide effective operational support to these business activities, the risk of non-compliance with foreign laws and regulations, and the general economic and political conditions in countries where we conduct business, which may differ significantly from those in the United States. In addition, we may experience currency risk as foreign exchange rates fluctuate in a manner that negatively impacts the value of non-U.S. dollar assets, revenues and expenses. If we are unable to manage these risks effectively, our reputation and results of operations could be harmed.

We may suffer losses if our reputation is harmed.

Our ability to attract and retain customers and employees may be diminished to the extent our reputation is damaged. If we fail, or are perceived to fail, to address various issues that may give rise to reputational risk, we could harm our business prospects. These issues include, but are not limited to, appropriately dealing with market dynamics (such as the current credit crisis), potential conflicts of interest, legal and regulatory requirements, ethical issues, customer privacy, record-keeping, sales and trading practices, and the proper identification of the legal, reputational, credit, liquidity and market risks inherent in our products and services. Failure to appropriately address these issues could give rise to loss of existing or future business, financial loss, and legal or regulatory liability, including complaints, claims and enforcement proceedings against us, which could, in turn, subject us to fines, judgments and other penalties.

Regulatory capital requirements may limit our ability to expand or maintain present levels of our business or impair our ability to meet our financial obligations.

We are subject to the SEC's uniform net capital rule (Rule 15c3-1) and the net capital rule of FINRA, which may limit our ability to make withdrawals of capital from Piper Jaffray & Co., our broker dealer subsidiary. The uniform net capital rule sets the minimum level of net capital a broker dealer must maintain and also requires that a portion of its assets be relatively liquid. FINRA may prohibit a member firm from expanding its business or paying cash dividends if resulting net capital falls below its requirements. In addition, Piper Jaffray Ltd., our London-based broker dealer subsidiary, and Piper Jaffray Asia, our Hong Kong-based broker dealer subsidiary, are subject to similar limitations under applicable laws in those jurisdictions.

As Piper Jaffray Companies is a holding company, we depend on dividends, distributions and other payments from our subsidiaries to fund all payments on our obligations, including any share repurchases that we may make. These regulatory restrictions may impede access to funds our holding company needs to make payments on any such obligations. In addition, underwriting commitments require a charge against net capital and, accordingly, our ability to make underwriting commitments may be limited by the requirement that we must at all times be in compliance with the applicable net capital regulations.

Provisions in our certificate of incorporation and bylaws and of Delaware law may prevent or delay an acquisition of our company, which could decrease the market value of our common stock.

Our certificate of incorporation and bylaws and Delaware law contain provisions that are intended to deter abusive takeover tactics by making them unacceptably expensive to the raider and to encourage prospective acquirors to negotiate with our board of directors rather than to attempt a hostile takeover. These provisions include limitations on actions by our shareholders by written consent and a rights plan that gives our board of directors the right to issue preferred stock without shareholder approval, which could be used to dilute the stock ownership of a potential hostile acquiror. Previously, our certificate of incorporation and bylaws also included provisions for a classified board of directors, but our shareholders approved the elimination of the classified structure at our 2007 annual meeting, resulting in the annual election of all directors in 2010. Delaware law also imposes some restrictions on mergers and other business combinations between us and any holder of 15 percent or more of our outstanding common stock. In connection with our spin-off from U.S. Bancorp we adopted a rights agreement, which would impose a significant penalty on any person or group that acquires 15 percent or more of our outstanding common stock without the approval of our board of directors. We believe these provisions protect our shareholders from coercive or otherwise unfair takeover tactics by requiring potential acquirors to negotiate with our board of directors and by providing our board of directors with more time to assess any acquisition proposal, and are not intended to make our company immune from takeovers. However, these provisions apply even if the offer may be considered beneficial by some shareholders and could delay or prevent an acquisition that our board of directors determines is not in the best interests of our company and our shareholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

As of February 20, 2009, we conducted our operations through 29 principal offices in 18 states and in London, Hong Kong, and Shanghai. All of our offices are leased. Our principal executive office is located at 800 Nicollet Mall, Suite 800, Minneapolis, Minnesota and, as of February 20, 2009, comprises approximately 320,000 square feet of leased space (of which approximately 99,460 square feet have been subleased to others and approximately 67,000 square feet will be contracted from the leased premises through an early reduction option). We have entered into a sublease arrangement with U.S. Bancorp, as lessor, for our offices at 800 Nicollet Mall, the term of which expires on May 29, 2014.

ITEM 3. LEGAL PROCEEDINGS.

Due to the nature of our business, we are involved in a variety of legal proceedings (including, but not limited to, those described below). These proceedings include litigation, arbitration and regulatory proceedings, which may arise from, among other things, underwriting or other transactional activity, client account activity, employment matters, regulatory examinations of our businesses and investigations of securities industry practices by governmental agencies and self-regulatory organizations. The securities industry is highly regulated, and the regulatory scrutiny applied to securities firms has increased dramatically in recent years, resulting in a higher number of regulatory investigations and enforcement actions and significantly greater uncertainty regarding the likely outcome of these matters. The number of litigation and arbitration proceedings also has increased in recent years. Accordingly, in recent years we have incurred higher expenses for legal proceedings than previously.

As part of our asset purchase agreement with UBS for the sale of our PCS branch network, we have retained liabilities arising from regulatory matters and certain litigation relating to the PCS business prior to the sale.

Litigation-related expenses include amounts we reserve and/or pay out as legal and regulatory settlements, awards or judgments, and fines. Parties who initiate litigation and arbitration proceedings against us may seek substantial or indeterminate damages, and regulatory investigations can result in substantial fines being imposed on us. We reserve for contingencies related to legal proceedings at the time and to the extent we determine the amount to be probable and reasonably estimable. However, it is inherently difficult to predict accurately the timing and outcome of legal proceedings, including the amounts of any settlements, judgments or fines. We assess each proceeding based on its particular facts, our outside advisors' and our past experience with similar matters, and expectations regarding the current legal and regulatory environment and other external developments that might affect the outcome of a particular proceeding or type of proceeding. We believe, based on our current knowledge, after appropriate consultation with outside legal counsel and in light of our established reserves, that pending litigation, arbitration and regulatory proceedings, including those described below, will be resolved with no material adverse effect on our financial condition. Of course, there can be no assurance that our assessments will reflect the ultimate outcome of pending proceedings, and the outcome of any particular matter may be material to our operating results for any particular period, depending, in part, on the operating results for that period and the amount of established reserves and indemnification. We generally have denied, or believe that we have meritorious defenses and will deny, liability in all significant cases currently pending against us, and we intend to vigorously defend such actions.

Municipal Contract Matters

We have received subpoenas and requests for information from, and we are responding to, the SEC, the U.S. Department of Justice("DOJ"), Antitrust Division, and various state attorneys general which are conducting broad, industry-wide investigations of anticompetitive and other practices relating to the marketing, providing or brokering of contracts involving the investment or reinvestment of proceeds of certain tax-exempt bond issues, including guaranteed investment contracts, derivatives and other investment securities. In December 2007, the DOJ notified one of our employees, whose employment subsequently was terminated, that he is regarded as a target of the investigation. We are cooperating with these inquiries and discussions with these regulators are continuing. In addition, several class action complaints have been brought on behalf of a purported class of state, local and municipal government entities that purchased municipal derivatives directly from one of the defendants or through a broker, from January 1, 1992, to the present. The complaints, which have been consolidated, allege antitrust violations and civil fraud and is pending in the Southern District of New York under the multi-district litigation rules. Defendants jointly filed a motion to dismiss on October 21, 2008.

Auction Rate Securities

Various federal and state regulators, including the SEC, FINRA and state securities regulators and attorneys general, are conducting broad inquiries concerning auction rate securities following recent market difficulties, including failed auctions that began in early 2008. We have received such inquiries and are cooperating with the requests. We are aware that these inquiries, which have been highly publicized, involve both underwriters and distributors of auction rate securities and are focused on whether investors were provided adequate disclosure concerning the nature of the securities and the risk of failed auctions. In 2008, these inquiries resulted in several underwriters of auction rate securities entering into agreements requiring them to redeem at par the bonds sold to certain investors.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

During the fourth quarter of 2008, we did not submit any matters to a vote of our shareholders.

PART II

ITEM 5. MARKET FOR COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

The sections of our 2008 Annual Report to Shareholders entitled "Market for Piper Jaffray Common Stock and Related Shareholder Matters" and "Stock Performance Graph" are incorporated herein by reference and also are included in Exhibit 13.1 to this Form 10-K.

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.

The table below sets forth the information with respect to purchases made by or on behalf of Piper Jaffray Companies or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of our common stock during the quarter ended December 31, 2008.

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 (October 1, 2008 to October 31, 2008)	65(2)	$ 37.36	0	$ 85.0 million
Month #2 (November 1, 2008 to November 30, 2008)	0	N/A	0	$ 85.0 million
Month #3 (December 1, 2008 to December 31, 2008)	2,467(2)	$ 35.81	0	$ 85.0 million
Total	2,532	$ 35.85	0	$ 85.0 million

(1) *On April 16, 2008, we announced that our board of directors had authorized the repurchase of up to $100 million of common stock through June 30, 2010.*

(2) *Consists of shares of common stock withheld from recipients of restricted stock to pay taxes upon the vesting of the restricted stock.*

ITEM 6. SELECTED FINANCIAL DATA.

The section of our 2008 Annual Report to Shareholders entitled "Selected Financial Data" is incorporated herein by reference and also is included in Exhibit 13.1 to this Form 10-K.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The section of our 2008 Annual Report to Shareholders entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" is incorporated herein by reference and also is included in Exhibit 13.1 to this Form 10-K.

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

The section of our 2008 Annual Report to Shareholders entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations—Enterprise Risk Management" is incorporated herein by reference and also is included in Exhibit 13.1 to this
Form 10-K.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The consolidated financial statements and notes thereto included in our 2008 Annual Report to Shareholders are incorporated herein by reference and also are included in Exhibit 13.1 to this Form 10-K. The section of our 2008 Annual Report to Shareholders entitled "Supplemental Information—Quarterly Information" is incorporated herein by reference and also is included in Exhibit 13.1 to this Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. 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 fourth quarter of our fiscal year ended December 31, 2008, 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.

Management's Report on Internal Control Over Financial Reporting and the attestation report of our independent registered public accounting firm on management's assessment of internal control over financial reporting are included in our 2008 Annual Report to Shareholders and are incorporated herein by reference. These reports also are included in Exhibit 13.1 to this Form 10-K. The determinations reflected in such reports were considered in light of our restatement of certain prior period financial statements, as described in Note 1, "Background," in the notes to our consolidated financial statements.

ITEM 9B. OTHER INFORMATION.

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information regarding our executive officers included in Part I of this Form 10-K under the caption "Executive Officers" is incorporated herein by reference. The information in the definitive proxy statement for our 2009 annual meeting of shareholders to be held on May 7, 2009, under the captions "Nominees for Election as Directors for a one-year term expiring 2010," "Members of the Board of Directors Continuing in Office," "Information Regarding the Board of Directors and Corporate Governance—Committees of the Board—Audit Committee," "Information Regarding the Board of Directors and Corporate Governance—Codes of Ethics and Business Conduct" and "Section 16(a) Beneficial Ownership Reporting Compliance" is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.

The information in the definitive proxy statement for our 2009 annual meeting of shareholders to be held on May 7, 2009, under the captions "Executive Compensation," "Certain Relationships and Related Transactions—Compensation Committee Interlocks and Insider Participation" and "Information Regarding the Board of Directors and Corporate Governance—Compensation Program for Non-Employee Directors" is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS.

The information in the definitive proxy statement for our 2009 annual meeting of shareholders to be held on May 7, 2009, under the captions "Security Ownership—Beneficial Ownership of Directors, Nominees and Executive Officers," "Security Ownership—Beneficial Owners of More than Five Percent of Our Common Stock" and "Item 3—Outstanding Equity Awards" are incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information in the definitive proxy statement for our 2009 annual meeting of shareholders to be held on May 7, 2009, under the captions "Information Regarding the Board of Directors and Corporate Governance—Director Independence," "Certain Relationships and Related Transactions—Transactions with Related Persons" and "Certain Relationships and Related Transactions—Review and Approval of Transactions with Related Persons" is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The information in the definitive proxy statement for our 2009 annual meeting of shareholders to be held on May 7, 2009, under the captions "Audit Committee Report and Payment of Fees to Our Independent Auditor—Auditor Fees" and "Audit Committee Report and Payment of Fees to Our Independent Auditor—Auditor Services Pre-Approval Policy" is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a)(1) FINANCIAL STATEMENTS OF THE COMPANY.

The Consolidated Financial Statements incorporated herein by reference and included in Exhibit 13.1 to this Form 10-K are listed on page F-1 by reference to the corresponding page numbers in our 2008 Annual Report to Shareholders.

(a)(2) FINANCIAL STATEMENT SCHEDULES.

The financial statement schedule required to be filed hereunder is listed on page F-1. All other financial statement schedules are not required under the related instructions or are inapplicable and therefore have been omitted.

(a)(3) EXHIBITS.

Exhibit Number	Description	Method of Filing
2.1	Separation and Distribution Agreement, dated as of December 23, 2003, between U.S. Bancorp and Piper Jaffray Companies. #	(1)
2.2	Asset Purchase Agreement dated April 10, 2006, among Piper Jaffray Companies, Piper Jaffray & Co. and UBS Financial Services Inc. #	(2)
2.3	Agreement of Purchase and Sale dated April 12, 2007 among Piper Jaffray Companies, Piper Jaffray Newco Inc., WG CAR, LLC, Charles D. Walbrandt, Joseph E. Gallagher, Jr., Wiley D. Angell, James J. Cunnane, Jr. and Mohammed Riad. #	(3)
2.4	Amendment to Agreement of Purchase and Sale dated September 14, 2007 among Piper Jaffray Companies, Piper Jaffray Investment Management Inc. (formerly known as Piper Jaffray Newco Inc.), WG CAR, LLC, Charles D. Walbrandt, Joseph E. Gallagher, Jr., Wiley D. Angell, James J. Cunnane, Jr. and Mohammed Riad.	(4)
2.5	Equity Purchase Agreement, dated July 3, 2007, among Piper Jaffray Companies, all owners of the equity interests in Goldbond Capital Holdings Limited ("Sellers"), Ko Po Ming, and certain individuals and entities who are owners of certain Sellers. #	(5)
3.1	Amended and Restated Certificate of Incorporation.	(6)
3.2	Amended and Restated Bylaws.	(6)
4.1	Form of Specimen Certificate for Piper Jaffray Companies Common Stock.	(7)
4.2	Rights Agreement, dated as of December 31, 2003, between Piper Jaffray Companies and Mellon Investor Services LLC, as Rights Agent. #	(1)
10.1	Employee Benefits Agreement, dated as of December 23, 2003, between U.S. Bancorp and Piper Jaffray Companies. #	(1)
10.2	Tax Sharing Agreement, dated as of December 23, 2003, between U.S. Bancorp and Piper Jaffray Companies. #	(1)
10.3	Insurance Matters Agreement, dated as of December 23, 2003, between U.S. Bancorp and Piper Jaffray Companies. #	(1)
10.4	Sublease Agreement, dated as of September 18, 2003, between U.S. Bancorp and U.S. Bancorp Piper Jaffray Inc.	(8)
10.5	U.S. Bancorp Piper Jaffray Inc. Second Century 2000 Deferred Compensation Plan.*	(1)
10.6	U.S. Bancorp Piper Jaffray Inc. Second Century Growth Deferred Compensation Plan (As Amended and Restated Effective September 30, 1998).*	(1)
10.7	Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan.*	Filed herewith
10.8	Form of Restricted Stock Agreement for Employee Grants in 2007 and 2008 (related to 2006 and 2007 performance, respectively) under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan.*	(9)
10.9	Form of Restricted Stock Agreement for Leadership Team Performance Grants in 2008 under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan.*	(10)
10.10	Form of Restricted Stock Agreement for Incremental Grants in 2008 under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan.*	(10)

Exhibit Number	Description	Method of Filing
10.11	Form of Stock Option Agreement for Employee Grants in 2004 and 2005 (related to 2003 and 2004 performance, respectively) under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan.*	(8)
10.12	Form of Stock Option Agreement for Employee Grants in 2006 (related to 2005 performance) under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan.*	(11)
10.13	Form of Stock Option Agreement for Employee Grants in 2007 and 2008 (related to 2006 and 2007 performance, respectively) under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan.*	(9)
10.14	Form of Stock Option Agreement for Non-Employee Director Grants under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan.*	(12)
10.15	Piper Jaffray Companies Deferred Compensation Plan for Non-Employee Directors.*	(13)
10.16	Summary of Non-Employee Director Compensation Program.*	Filed herewith
10.17	Summary of Annual Incentive Program for Certain Executive Officers.*	(14)
10.18	Employment Agreement by and among Piper Jaffray Asia Holdings Limited, Piper Jaffray Companies and Ko, Po Ming	(10)
10.19	Form of Notice Period Agreement.*	(9)
10.20	Loan Agreement (Broker-Dealer VRDN), dated September 30, 3008, between Piper Jaffray & Co. and U.S. Bank National Association. #	(15)
13.1	Selected Portions of the 2008 Annual Report to Shareholders.	Filed herewith
21.1	Subsidiaries of Piper Jaffray Companies.	Filed herewith
23.1	Consent of Ernst & Young LLP.	Filed herewith
24.1	Power of Attorney.	Filed herewith
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chairman and Chief Executive Officer.	Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification of Vice Chairman and Chief Financial Officer.	Filed herewith
32.1	Section 1350 Certifications.	Filed herewith

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

\# The Company hereby agrees to furnish supplementally to the Commission upon request any omitted exhibit or schedule.

(1) Filed as an exhibit to the Company's Form 10-K for the fiscal year end December 31, 2003, filed with the Commission on March 8, 2004, and incorporated herein by reference.

(2) Filed as an exhibit to the Company's Form 8-K, filed with the Commission on April 11, 2006, and incorporated herein by reference.

(3) Filed as an exhibit to the Company's Form 8-K, filed with the Commission on April 13, 2007, and incorporated herein by reference.

(4) Filed as an exhibit to the Company's Form 8-K, filed with the Commission on September 14, 2007, and incorporated herein by reference.

(5) Filed as an exhibit to the Company's Form 8-K, filed with the Commission on July 3, 2007, and incorporated herein by reference.

(6) File as an exhibit to the Company's Form 10-Q for the quarterly period ended June 30, 2007, filed with the Commission on August 8, 2007, and incorporated herein by reference.

(7) Filed as an exhibit to the Company's Form 10, filed with the Commission on June 25, 2003, and incorporated herein by reference.

(8) Filed as an exhibit to the Company's Amendment No. 2 to Form 10, filed with the Commission on October 23, 2003, and incorporated herein by reference.

(9) Filed as an exhibit to the Company's Form 10-K for the year ended December 31, 2006, filed with the Commission on March 1, 2007, and incorporated herein by reference.

(10) Filed as an exhibit to the Company's Form 10-Q for the year ended June 30, 2008, filed with the Commission on August 1, 2008, and incorporated herein by reference.

(11) Filed as an exhibit to the Company's Form 10-K for the year ended December 31, 2005, filed with the Commission on March 1, 2006, and incorporated herein by reference.

(12) Filed as an exhibit to the Company's Form 10-Q for the quarterly period ended June 30, 2004, filed with the Commission on August 4, 2004, and incorporated herein by reference.

(13) Filed as an exhibit to the Company's Form 10-Q for the quarterly period ended March 31, 2007, filed with the Commission on May 4, 2007, and incorporated herein by reference.

(14) Incorporated herein by reference to Item 5.02 of the Company's Form 8-K, filed with the Commission on February 23, 2009.

(15) Filed as an exhibit to the Company's Form 10-Q for the quarterly period ended September 30, 2008, filed with the Commission on November 10, 2008, and incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 March 2, 2009.

PIPER JAFFRAY COMPANIES

By /s/ Andrew S. Duff
Its Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 2, 2009.

SIGNATURE	TITLE
/s/ Andrew S. Duff Andrew S. Duff	Chairman and Chief Executive Officer (Principal Executive Officer)
/s/ Debbra L. Schoneman Debbra L. Schoneman	Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ Michael R. Francis Michael R. Francis	Director
/s/ B. Kristine Johnson B. Kristine Johnson	Director
/s/ Samuel L. Kaplan Samuel L. Kaplan	Director
/s/ Addison L. Piper Addison L. Piper	Director
/s/ Lisa K. Polsky Lisa K. Polsky	Director
/s/ Frank L. Sims Frank L. Sims	Director
/s/ Jean M. Taylor Jean M. Taylor	Director

PIPER JAFFRAY COMPANIES
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AND FINANCIAL STATEMENT SCHEDULE

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Piper Jaffray Companies

We have audited the consolidated financial statements of Piper Jaffray Companies as of December 31, 2008, 2007 and 2006, and for the years then ended, and have issued our report thereon dated February 27, 2009 (incorporated by reference in this Annual Report on Form 10-K). Our audits also included the financial statement schedule listed in Item 15(a) of this Annual Report. This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

The consolidated financial statements as of December 31, 2007 and 2006 and for the years then ended were restated as discussed in Note 1.

/s/ Ernst & Young LLP

Minneapolis, Minnesota
February 27, 2009

Piper Jaffray Companies
(Parent Company Only)
Statements of Financial Condition

(Amounts in thousands)	December 31, 2008	2007 (Restated)	2006 (Restated)
Assets			
Cash and cash equivalents	**$ 560**	$ 230	$ 4,738
Investment in and advances to subsidiaries	**766,000**	935,037	941,739
Goodwill	**9,208**	19,191	—
Other assets	**1,178**	2,076	1,843
Total assets	**$ 776,946**	$ 956,534	$ 948,320
Liabilities and Shareholders' Equity			
Accrued compensation	**$ 16,420**	$ 52,887	$ 43,464
Other liabilities	**12,547**	8,500	—
Total liabilities	**28,967**	61,387	43,464
Shareholders' equity	**747,979**	895,147	904,856
Total liabilities and shareholders' equity	**$ 776,946**	$ 956,534	$ 948,320

See Notes to Financial Statements

Piper Jaffray Companies
(Parent Company Only)
Statements of Operations

(Amounts in thousands)	Year Ended December 31, 2008	2007 *(Restated)*	2006 *(Restated)*
Revenues:			
Dividends from subsidiaries	**$ 8,500**	$ 182,326	$ 102,700
Interest income	**22**	96	73
Unrealized gain/(loss) on investments	**(897)**	75	—
Total revenues	**7,625**	182,497	102,773
Expenses:			
Total expenses	**13,667**	3,859	4,404
Income/(loss) before income tax expense/(benefit) and equity in undistributed income of subsidiaries	**(6,042)**	178,638	98,369
Income tax expense/(benefit)	**(2,098)**	48,060	44,671
Income/(loss) of parent company	**(3,944)**	130,578	53,698
Equity in undistributed/(distributed in excess of) income of subsidiaries	**(179,031)**	(108,635)	141,727
Net income/(loss)	**$ (182,975)**	$ 21,943	$ 195,425

See Notes to Financial Statements

Piper Jaffray Companies
(Parent Company Only)
Statements of Cash Flows

	Year Ended December 31,		
(Amounts in thousands)	**2008**	2007 *(Restated)*	2006 *(Restated)*
Operating Activities:			
Net income/(loss)	**$ (182,975)**	$ 21,943	$ 195,425
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:			
Stock-based compensation	**263**	465	300
Goodwill impairment	**9,983**	—	—
Equity distributed in excess of/(undistributed) income of subsidiaries	**179,031**	108,635	(141,727)
Net cash provided by operating activities	**6,302**	131,043	53,998
Financing Activities:			
Advances from/(to) subsidiaries	**9,018**	(55,580)	48,834
Repurchases of common stock	**(14,990)**	(79,971)	(100,000)
Net cash used in financing activities	**(5,972)**	(135,551)	(51,166)
Net increase/(decrease) in cash and cash equivalents	**330**	(4,508)	2,832
Cash and cash equivalents at beginning of year	**230**	4,738	1,906
Cash and cash equivalents at end of year	**$ 560**	$ 230	$ 4,738
Supplemental disclosures of cash flow information			
Cash received/(paid) during the year for:			
Interest	**$ 22**	$ 96	$ 73
Income taxes	**$ 2,537**	$ (48,060)	$ (44,671)

See Notes to Financial Statements

Piper Jaffray Companies
(Parent Company Only)
Notes to Financial Statements

Note 1 *Background*

Background

Piper Jaffray Companies ("PJC") is the parent company of Piper Jaffray & Co. ("Piper Jaffray"), a securities broker dealer and investment banking firm; Piper Jaffray Ltd., a firm providing securities brokerage and investment banking services in Europe headquartered in London, England; Piper Jaffray Asia Holdings Limited, an entity providing investment banking services in China headquartered in Hong Kong; Fiduciary Asset Management, LLC ("FAMCO"), an entity providing asset management services to clients through separately managed accounts and closed end funds offering an array of investment products; Piper Jaffray Financial Products Inc., and Piper Jaffray Financial Products II Inc., entities that facilitate customer derivative and inventory hedging transactions; and other immaterial subsidiaries. Piper Jaffray Companies and its subsidiaries (collectively, the "Company") operate as one reporting segment providing investment banking services, institutional sales, trading and research services, and asset management services.

Restatement of 2006 and 2007 Annual and 2008 Interim Financial Statements

On February 2, 2009, the Company filed a Form 8-K reporting that the Company's previously issued (i) interim financial statements included in its Quarterly Reports on Form 10-Q for the periods ended March 31, June 30, and September 30, 2008 and (ii) annual financial statements for the years ended December 31, 2007 and 2006 included in its Annual Report on Form 10-K (collectively, the "Affected Financial Statements") and the related reports of its independent registered public accounting firm, Ernst & Young LLP, should no longer be relied upon.

As part of the compensation paid to employees, the Company uses stock-based compensation, consisting of stock options and restricted stock. Since January 1, 2006, the Company accounts for stock-based compensation in accordance with Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment" (SFAS 123(R)). Stock-based compensation was generally amortized on a straight-line basis over the vesting period of the award, which was typically three years. The majority of restricted stock and option grants provide for continued vesting after termination, provided that the employee does not violate certain post-termination restrictions as set forth in the award agreements or any agreements entered into upon termination. The Company considered the required service period to be the greater of the vesting period or the post-termination restricted period. Management's interpretation was that the post-termination restrictions met the SFAS 123(R) definition of a substantive service requirement.

In the fourth quarter of 2008, management re-evaluated whether the post-termination restrictions of certain equity awards would continue to meet the criteria for an in-substance service condition given the historic changes to the industry. Following an extensive analysis, management concluded in January 2009, in consultation with the Company's auditors, that the post-termination restrictions had never met the criteria for an in-substance service condition for awards granted since January 1, 2006 based on the manner in which those complex criteria are interpreted in practice. As such, this determination necessitated a restatement of results for the Affected Financial Statements to recognize expense for all of those equity awards in the year in which those awards were deemed to be earned, rather than over the three-year vesting period.

The total expense impact resulting from the revised stock-based compensation treatment was $51.7 million after-tax ($81.5 million pre-tax) for the three year period ended December 31, 2008, which includes the unamortized expense for the affected equity awards that were granted in 2008, 2007 and 2006 and an accrual for the equity awards earned in 2008 that will be granted in February 2009. The total expense was largely non-cash. The cumulative impact on shareholders' equity as of December 31, 2008 was an increase of $13.5 million after-tax, essentially all driven by the deferred tax benefit associated with the increase in expense.

The line items impacted by the restatement are as follows:

	Year Ended December 31,		Year Ended December 31,	
	2007	2007	2006	2006
(Dollars in thousands)	*(As Reported)*	*(Restated)*	*(As Reported)*	*(Restated)*
Statement of operations data:				
Equity in undistributed/(distributed in excess of) income of subsidiaries	$ (88,362)	$(108,635)	$181,555	$141,727
Net income	42,216	21,943	235,253	195,425
Statement of financial condition data:				
Investment in and advances to subsidiaries	$918,783	$ 935,037	$917,858	$941,739
Total assets	921,089	956,534	924,439	948,320
Accrued compensation	—	52,887	—	43,464
Total liabilities	8,500	61,387	—	43,464
Total shareholders' equity	912,589	895,147	924,439	904,856

General

The financial information of the Parent Company Only should be read in conjunction with the consolidated financial statements of Piper Jaffray Companies and the notes thereto in the Piper Jaffray Companies 2008 Annual Report to Shareholders and also included in Exhibit 13.1 to this Form 10-K.

Use of Estimates

The preparation of the financial statements and related disclosures in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 *Dividend Restrictions*

Piper Jaffray is registered as a securities broker dealer and as an investment advisor with the SEC and is a member of various self regulatory organizations ("SRO") and securities exchanges. In July of 2007, the NASD and the member regulation, enforcement and arbitration functions of the New York Stock Exchange consolidated to form the Financial Industry Regulatory Authority ("FINRA"), which now serves as our primary SRO, although the NYSE continues to have oversight over NYSE-related market activites. 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 the FINRA 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. As of December 31, 2008, Piper Jaffray net capital exceeded 5 percent of aggregate debits by $209.3 million. Advances to affiliates, repayment of subordinated debt, dividend payments and other equity withdrawals from Piper Jaffray are subject to certain notification and other provisions of the SEC and FINRA rules. In addition, Piper Jaffray is subject to certain notification requirements related to withdrawals of excess net capital.

Note 3 *Guarantees*

PJC has guaranteed certain obligations and activities of Piper Jaffray Ltd. related to lease obligations, underwriting activities and custody and clearance arrangements with counterparties. In addition, PJC has guaranteed the performance of certain of its subsidiaries derivatives activities.

Note 4 *Goodwill*

The following table presents the changes in the carrying value of goodwill for the year ended December 31, 2008:

(Dollars in thousands)	
Balance at December 31, 2006	**$ —**
Goodwill acquired	19,191
Impairment losses	—
Balance at December 31, 2007	**19,191**
Goodwill acquired	—
Impairment losses	(9,983)
Balance at December 31, 2008	**$ 9,208**

The Company tests goodwill for impairment on an annual basis and on an interim basis when certain events or circumstances exist. The Company tests for impairment at the reporting unit level, which are generally one level below its operating segments. 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 comparing the estimated fair value of a reporting unit with its book value. If the estimated fair value is less than the carrying value, the second step is performed to compute the amount of impairment.

The Company completed its annual goodwill impairment testing as of November 30, 2008, which resulted in a PJC non-cash goodwill impairment charge of $10.0 million. The charge relates to the capital markets reporting unit and was allocated on a pro-rata basis to the different components within the reporting unit. The fair value of the capital markets reporting unit was calculated based on the following factors: market capitalization, a discounted cash flow model using revenue and profit forecasts and public company comparables. The impairment charge resulted from deteriorating economic and market conditions in 2008, which led to reduced valuations from these factors. A continued downturn in market conditions could result in additional impairment charges in future periods.

Exhibit Index

Exhibit Number	Description	Method of Filing
2.1	Separation and Distribution Agreement, dated as of December 23, 2003, between U.S. Bancorp and Piper Jaffray Companies. #	(1)
2.2	Asset Purchase Agreement dated April 10, 2006, among Piper Jaffray Companies, Piper Jaffray & Co. and UBS Financial Services Inc. #	(2)
2.3	Agreement of Purchase and Sale dated April 12, 2007 among Piper Jaffray Companies, Piper Jaffray Newco Inc., WG CAR, LLC, Charles D. Walbrandt, Joseph E. Gallagher, Jr., Wiley D. Angell, James J. Cunnane, Jr. and Mohammed Riad. #	(3)
2.4	Amendment to Agreement of Purchase and Sale dated September 14, 2007 among Piper Jaffray Companies, Piper Jaffray Investment Management Inc. (formerly known as Piper Jaffray Newco Inc.), WG CAR, LLC, Charles D. Walbrandt, Joseph E. Gallagher, Jr., Wiley D. Angell, James J. Cunnane, Jr. and Mohammed Riad.	(4)
2.5	Equity Purchase Agreement, dated July 3, 2007, among Piper Jaffray Companies, all owners of the equity interests in Goldbond Capital Holdings Limited (“Sellers”), Ko Po Ming, and certain individuals and entities who are owners of certain Sellers. #	(5)
3.1	Amended and Restated Certificate of Incorporation.	(6)
3.2	Amended and Restated Bylaws.	(6)
4.1	Form of Specimen Certificate for Piper Jaffray Companies Common Stock.	(7)
4.2	Rights Agreement, dated as of December 31, 2003, between Piper Jaffray Companies and Mellon Investor Services LLC, as Rights Agent. #	(1)
10.1	Employee Benefits Agreement, dated as of December 23, 2003, between U.S. Bancorp and Piper Jaffray Companies. #	(1)
10.2	Tax Sharing Agreement, dated as of December 23, 2003, between U.S. Bancorp and Piper Jaffray Companies. #	(1)
10.3	Insurance Matters Agreement, dated as of December 23, 2003, between U.S. Bancorp and Piper Jaffray Companies. #	(1)
10.4	Sublease Agreement, dated as of September 18, 2003, between U.S. Bancorp and U.S. Bancorp Piper Jaffray Inc.	(8)
10.5	U.S. Bancorp Piper Jaffray Inc. Second Century 2000 Deferred Compensation Plan.*	(1)
10.6	U.S. Bancorp Piper Jaffray Inc. Second Century Growth Deferred Compensation Plan (As Amended and Restated Effective September 30, 1998).*	(1)
10.7	Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan.*	Filed herewith
10.8	Form of Restricted Stock Agreement for Employee Grants in 2007 and 2008 (related to 2006 and 2007 performance, respectively) under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan.*	(9)
10.9	Form of Restricted Stock Agreement for Leadership Team Performance Grants in 2008 under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan.*	(10)
10.10	Form of Restricted Stock Agreement for Incremental Grants in 2008 under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan.*	(10)

Exhibit Number	Description	Method of Filing
10.11	Form of Stock Option Agreement for Employee Grants in 2004 and 2005 (related to 2003 and 2004 performance, respectively) under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan.*	(8)
10.12	Form of Stock Option Agreement for Employee Grants in 2006 (related to 2005 performance) under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan.*	(11)
10.13	Form of Stock Option Agreement for Employee Grants in 2007 and 2008 (related to 2006 and 2007 performance, respectively) under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan.*	(9)
10.14	Form of Stock Option Agreement for Non-Employee Director Grants under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan.*	(12)
10.15	Piper Jaffray Companies Deferred Compensation Plan for Non-Employee Directors.*	(13)
10.16	Summary of Non-Employee Director Compensation Program.*	Filed herewith
10.17	Summary of Annual Incentive Program for Certain Executive Officers.*	(14)
10.18	Employment Agreement by and among Piper Jaffray Asia Holdings Limited, Piper Jaffray Companies and Ko, Po Ming	(10)
10.19	Form of Notice Period Agreement.*	(9)
10.20	Loan Agreement (Broker-Dealer VRDN), dated September 30, 3008, between Piper Jaffray & Co. and U.S. Bank National Association. #	(15)
13.1	Selected Portions of the 2008 Annual Report to Shareholders.	Filed herewith
21.1	Subsidiaries of Piper Jaffray Companies.	Filed herewith
23.1	Consent of Ernst & Young LLP.	Filed herewith
24.1	Power of Attorney.	Filed herewith
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chairman and Chief Executive Officer.	Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification of Vice Chairman and Chief Financial Officer.	Filed herewith
32.1	Section 1350 Certifications.	Filed herewith

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

\# The Company hereby agrees to furnish supplementally to the Commission upon request any omitted exhibit or schedule.

(1) Filed as an exhibit to the Company's Form 10-K for the fiscal year end December 31, 2003, filed with the Commission on March 8, 2004, and incorporated herein by reference.

(2) Filed as an exhibit to the Company's Form 8-K, filed with the Commission on April 11, 2006, and incorporated herein by reference.

(3) Filed as an exhibit to the Company's Form 8-K, filed with the Commission on April 13, 2007, and incorporated herein by reference.

(4) Filed as an exhibit to the Company's Form 8-K, filed with the Commission on September 14, 2007, and incorporated herein by reference.

(5) Filed as an exhibit to the Company's Form 8-K, filed with the Commission on July 3, 2007, and incorporated herein by reference.

(6) File as an exhibit to the Company's Form 10-Q for the quarterly period ended June 30, 2007, filed with the Commission on August 8, 2007, and incorporated herein by reference.

(7) Filed as an exhibit to the Company's Form 10, filed with the Commission on June 25, 2003, and incorporated herein by reference.

(8) Filed as an exhibit to the Company's Amendment No. 2 to Form 10, filed with the Commission on October 23, 2003, and incorporated herein by reference.

(9) Filed as an exhibit to the Company's Form 10-K for the year ended December 31, 2006, filed with the Commission on March 1, 2007, and incorporated herein by reference.

(10) Filed as an exhibit to the Company's Form 10-Q for the year ended June 30, 2008, filed with the Commission on August 1, 2008, and incorporated herein by reference.

(11) Filed as an exhibit to the Company's Form 10-K for the year ended December 31, 2005, filed with the Commission on March 1, 2006, and incorporated herein by reference.

(12) Filed as an exhibit to the Company's Form 10-Q for the quarterly period ended June 30, 2004, filed with the Commission on August 4, 2004, and incorporated herein by reference.

(13) Filed as an exhibit to the Company's Form 10-Q for the quarterly period ended March 31, 2007, filed with the Commission on May 4, 2007, and incorporated herein by reference.

(14) Incorporated herein by reference to Item 5.02 of the Company's Form 8-K, filed with the Commission on February 23, 2009.

(15) Filed as an exhibit to the Company's Form 10-Q for the quarterly period ended September 30, 2008, filed with the Commission on November 10, 2008, and incorporated herein by reference.

Exhibit 10.7

PIPER JAFFRAY COMPANIES
AMENDED AND RESTATED
2003 ANNUAL AND LONG-TERM INCENTIVE PLAN

(as amended and restated effective January 1, 2009)

SECTION 1. Purpose

The purpose of the Plan is to promote the interests of the Company and its stockholders by giving the Company a competitive advantage in attracting, retaining and motivating employees, officers, consultants and Directors capable of assuring the future success of the Company, to offer such persons incentives that are directly linked to the profitability of the Company's businesses and increases in stockholder value, and to afford such persons an opportunity to acquire a proprietary interest in the Company.

SECTION 2. Definitions

As used in the Plan, the following terms shall have the meanings set forth below.

(a) "Affiliate" means any entity in which the Company has, directly or indirectly through one or more intermediaries, a controlling interest or which has, directly or indirectly through one or more intermediaries, a controlling interest in the Company, within the meaning of Treasury Regulation § 1.409A-1(b)(5)(iii)(E).

(b) "Award" means any Stock Option, Stock Appreciation Right, Restricted Stock, Restricted Stock Unit, Performance Award, Dividend Equivalent, Other Stock Grant, Other Stock-Based Award or Tax Offset Bonus granted under the Plan.

(c) "Award Agreement" means any written agreement, contract or other instrument or document evidencing any Award granted under the Plan. Each Award Agreement shall be subject to the applicable terms and conditions of the Plan and any other terms and conditions (not inconsistent with the Plan) determined by the Committee.

(d) "Board" means the Board of Directors of the Company.

(e) "Code" means the Internal Revenue Code of 1986, as amended from time to time, and any regulations promulgated thereunder.

(f) "Change in Control" has the meaning set forth in Section 7.

(g) "Committee" means a committee of Directors designated by the Board to administer the Plan, which initially shall be the Compensation Committee of the Board. The Committee shall be comprised of not less than such number of Directors as shall be required to permit Awards granted under the Plan to qualify under Rule 16b-3 and Section 162(m) of the Code, and each member of the Committee shall be an Outside Director.

(h) "Company" means Piper Jaffray Companies, a Delaware corporation.

(i) "Covered Employee" means a Participant designated prior to the grant of Restricted Stock, Restricted Stock Units or Performance Awards by the Committee who is or may be a "covered employee" within the meaning of Section 162(m)(3) of the Code in the year in which any such Award is expected to be taxable to such Participant.

(j) "Director" means a member of the Board, including any Outside Director.

(k) "Dividend Equivalent" means any right granted under Section 6(e) of the Plan.

(l) "Effective Date" has the meaning set forth in Section 11 of the Plan.

(m) "Eligible Individual" means any employee, officer, Director or consultant providing services to the Company or any Affiliate, and prospective employees and consultants who have accepted offers of employment or consultancy from the Company or any Affiliate, whom the Committee determines to be an Eligible Individual.

(n) "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time.

(o) "Exercise Price" has the meaning set forth in Section 6(a) of the Plan.

(p) "Fair Market Value" means, with respect to any property (including, without limitation, any Shares or other securities), the fair market value of such property determined by such methods or procedures as shall be established from time to time by the Committee in good faith and in a manner consistent with Code Section 409A. Notwithstanding the foregoing and except as otherwise provided by the Committee, the Fair Market Value of a Share as of a given date shall be the closing sales price for one Share on the New York Stock Exchange or such other established securities market as may at the time be the principal market for the Shares, or if the Shares were not traded on such national securities market or exchange on such date, then on the next preceding date on which the Shares are traded, all as reported by such source as the Committee may select.

(q) "Non-Qualified Stock Option" means any Stock Option that is not designated as, or is not intended to qualify as, an "incentive stock option" within the meaning of Section 422 of the Code.

(r) "Outside Director" means any Director who qualifies as an "outside director" within the meaning of Section 162(m) of the Code, as a "non-employee director" within the meaning of Rule 16b-3 and as an "independent director" pursuant to the requirements of the New York Stock Exchange.

(s) "Participant" means an Eligible Individual designated to be granted an Award under the Plan.

(t) "Performance Award" means any right granted under Section 6(d) of the Plan.

(u) "Performance Goals" means the performance goals established by the Committee in connection with the grant of an Award. In the case of Qualified Performance-Based Awards, (i) such goals shall be based on the attainment of specified levels of one or more of the following measures with respect to the Company or such subsidiary, division or department of the Company for or within which the Participant performances services: revenue growth; earnings before interest, taxes, depreciation, and amortization; earnings before interest and taxes; operating income; pre- or after- tax income; earnings per share; cash flow; cash flow per share; return on equity; return on tangible equity; return on invested capital; return on assets; economic value added (or an equivalent metric); share price performance; total shareholder return; improvement in or attainment of expense levels; improvement in or attainment of working capital levels and (ii) such Performance Goals shall be set by the Committee within the time period prescribed by Section 162(m) of the Code and related regulations. Such Performance Goals also may be based upon the attaining of specified levels of Company performance under one or more of the measures described above relative to the performance of other companies.

(v) “Plan” means this Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan, as set forth herein and as hereinafter amended from time to time.

(w) “Qualified Performance-Based Award” means an Award of Restricted Stock, Restricted Stock Units or Performance Awards designated as such by the Committee at the time of grant, based upon a determination that (i) the recipient is or may be a Covered Employee in the year in which the Company would expect to be able to claim a tax deduction with respect to such Restricted Stock or Performance Awards and (ii) the Committee wishes such Award to qualify for the Section 162(m) Exemption.

(x) “Restricted Stock” means any Share granted under Section 6(c) of the Plan.

(y) “Restricted Stock Unit” means any unit granted under Section 6(c) of the Plan evidencing the right to receive a Share (or a cash payment equal to the Fair Market Value of a Share) at some future date.

(z) “Rule 16b-3” means Rule 16b-3, as promulgated by the Securities and Exchange Commission under Section 16(b) of the Exchange Act, as amended from time to time.

(aa) “Section 162(m) Exemption” means the exemption from the limitation on deductibility imposed by Section 162(m) of the Code that is set forth in Section 162(m)(4)(C) of the Code.

(bb) “Share” or “Shares” means a share or shares of common stock, par value $.01 per share, of the Company.

(cc) “Stock Appreciation Right” means any right granted under Section 6(b) of the Plan.

(dd) “Stock Option” means a Non-Qualified Stock Option granted under Section 6(a) of the Plan.

SECTION 3. Administration

(a) Power and Authority of the Committee. The Plan shall be administered by the Committee. Subject to the terms of the Plan and to applicable law, the Committee shall have full power and authority to:

(i) designate Participants;

(ii) determine whether and to what extent any type (or types) of Award is to be granted hereunder;

(iii) determine the number of Shares to be covered by (or the method by which payments or other rights are to be determined in connection with) each Award;

(iv) determine the terms and conditions of any Award or Award Agreement;

(v) subject to Section 9 hereof, amend the terms and conditions of any Award or Award Agreement and accelerate the vesting and/or exercisability of any Stock Option or waive any restrictions relating to any Award; provided, however, that (A) except for adjustments pursuant to Section 4(c) of the Plan, in no event may any Stock Option granted under this Plan be (x) amended to decrease the Exercise Price thereof, (y) cancelled in conjunction with the grant of any new Stock Option with a lower Exercise Price, or (z) otherwise subject to any action that would be treated, for accounting purposes, as a "repricing" of such Stock Option, unless such amendment, cancellation, or action is approved by the stockholders of the Company to the extent required by applicable law and stock exchange rules and (B) the Committee may not adjust upwards the amount payable to a Covered Employee with respect to a Qualified Performance-Based Award or waive or alter the Performance Goals associated therewith in a manner that would violate Section 162(m) of the Code.

(vi) determine whether, to what extent and under what circumstances the exercise price of Awards may be paid in cash, Shares, other securities, other Awards or other property, or canceled, forfeited or suspended;

(vii) determine whether, to what extent and under what circumstances cash, Shares, other securities, other Awards, other property and other amounts payable with respect to an Award under the Plan shall be deferred either automatically or at the election of the holder thereof or the Committee;

(viii) interpret and administer the Plan and any instrument or agreement, including an Award Agreement, relating to the Plan;

(ix) adopt, alter, suspend, waive or repeal such rules, guidelines and practices and appoint such agents as it shall deem advisable or appropriate for the proper administration of the Plan; and

(x) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of the Plan.

Unless otherwise expressly provided in the Plan, all designations, determinations, interpretations and other decisions under or with respect to the Plan or any Award or Award Agreement shall be within the sole discretion of the Committee, may be made at any time and shall be final, conclusive and binding upon all persons, including without limitation, the Company, its Affiliates, subsidiaries, shareholders, Eligible Individuals and any holder or beneficiary of any Award.

(b) Action by the Committee; Delegation. Except to the extent prohibited by applicable law or the applicable rules of a stock exchange, the Committee may delegate all or any part of its duties and powers under the Plan to one or more persons, including Directors or a committee of Directors, subject to such terms, conditions and limitations as the Committee may establish in its sole discretion; provided, however, that the Committee shall not delegate its powers and duties under the Plan (i) with regard to officers or directors of the Company or any Affiliate who are subject to Section 16 of the Exchange Act or (ii) in a manner that would cause an Award designated as a Qualified Performance-Based Award not to qualify for, or to cease to qualify for, the Section 162(m) Exemption; and provided, further, that any such delegation may be revoked by the Committee at any time.

(c) Power and Authority of the Board. Notwithstanding anything to the contrary contained herein, except to the extent that the grant or exercise of such authority would cause any Award or transaction to become subject to (or lose an exemption under) the short-swing profit recovery provisions of Section 16 of the Exchange Act or cause an Award designated as a Qualified Performance-Based Award not to qualify for, or to cease to qualify for, the Section 162(m) Exemption, the Board may, at any time and from time to time, without any further action of the Committee, exercise the powers and duties of the Committee under the Plan. To the extent that any permitted action taken by the Board conflicts with action taken by the Committee, the Board action shall control.

SECTION 4. Shares Available for Awards

(a) Shares Available. Subject to adjustment as provided in Section 4(c) of the Plan, the aggregate number of Shares that may be issued under the Plan shall be 5,500,000. Shares that may be issued under the Plan may be authorized but unissued Shares or Shares re-acquired and held in treasury.

(b) Accounting for Awards. For purposes of this Section 4, if an Award entitles the holder thereof to receive or purchase Shares, the number of Shares covered by such Award or to which such Award relates shall be counted on the date of grant of such Award against the aggregate number of Shares available for granting Awards under the Plan. Any Shares that are used by a Participant as full or partial payment to the Company of the purchase price relating to an Award, including in connection with the satisfaction of tax obligations relating to an Award, shall again be available for granting Awards under the Plan. In addition, if any Shares covered by an Award or to which an Award relates are not purchased or are forfeited, or if an Award otherwise terminates without delivery of any Shares, then the number of Shares counted against the aggregate number of Shares available under the Plan with respect to such Award, to the extent of any such forfeiture or termination, shall again be available for granting Awards under the Plan.

(c) Adjustments. In the event of any change in corporate capitalization (including, but not limited to, a change in the number of Shares outstanding), such as a stock split or a corporate transaction, such as any merger, consolidation, separation, including a spin-off, or other distribution of stock or property of the Company (including any extraordinary cash or stock dividend), any reorganization (whether or not such reorganization comes within the definition of such term in Section 368 of the Code) or any partial or complete liquidation of the Company, the Committee or Board shall make such substitution or adjustments in the aggregate number and kind of shares reserved for issuance under the Plan, and the maximum limitation upon Stock Options and Stock Appreciation Rights and other Awards to be granted to any Participant, in the number, kind and Exercise Price of shares subject to outstanding Stock Options and Stock Appreciation Rights, in the number and kind of shares subject to other outstanding Awards granted under the Plan and/or such other equitable substitution or adjustments as it may determine to be appropriate in its sole discretion (including, without limitation, the provision of an amount in cash in consideration for any such Awards); provided, however, that the number of shares subject to any Award shall always be a whole number. Without limiting the generality of the foregoing, in connection with any Disaffiliation of a subsidiary of the Company, the Committee shall have the authority to arrange for the assumption or replacement of Awards with new awards based on shares of the affected subsidiary or by an affiliate of an entity that controls the subsidiary following the Disaffiliation. For purposes hereof, "Disaffiliation" of a subsidiary shall mean the subsidiary's ceasing to be a subsidiary of the Company for any reason (including, without limitation, as a result of a public offering, spin-off, sale or other distribution or transfer by the Company of the stock of the subsidiary). Notwithstanding the foregoing, to the extent that any Award is otherwise considered to be deferred compensation under Section 409A of the Code, any adjustment to such Award will comply with Section 409A of the Code (including current and future guidance issued by the Department of Treasury and or the Internal Revenue Service).

(d) Award Limitations. No more than 250,000 shares of Common Stock may be subject to Qualified Performance-Based Awards granted to any Eligible Individual in any fiscal year of the Company.

SECTION 5. Eligibility

Any Eligible Individual shall be eligible to be designated a Participant. In determining which Eligible Individuals shall receive an Award and the terms of any Award, the Committee may take into account the nature of the services rendered by the respective Eligible Individuals, their present and potential contributions to the success of the Company or such other factors as the Committee, in its discretion, shall deem relevant.

SECTION 6. Awards

(a) Stock Options. The Committee is hereby authorized to grant Stock Options (which may only be Non-Qualified Stock Options) to Eligible Individuals with the following terms and conditions and with such additional terms and conditions not inconsistent with the provisions of the Plan as the Committee shall determine:

(i) Exercise Price. The purchase price per Share purchasable under a Stock Option (the "Exercise Price") shall be determined by the Committee; provided, however, that such Exercise Price shall not be less than 100% of the Fair Market Value of a Share on the date of grant of such Stock Option.

(ii) Option Term. The term of each Stock Option shall be fixed by the Committee at the time of grant, but in no event shall be more than 10 years from the date of grant.

(iii) Time and Method of Exercise. The Committee shall determine the time or times at which a Stock Option may be exercised in whole or in part and the method or methods by which, and the form or forms (including, without limitation, cash, Shares, other securities, other Awards or other property, or any combination thereof, having a Fair Market Value on the exercise date equal to the applicable Exercise Price) in which, payment of the Exercise Price with respect thereto may be made or deemed to have been made.

(b) Stock Appreciation Rights. The Committee is hereby authorized to grant Stock Appreciation Rights to Eligible Individuals subject to the terms of the Plan. Each Stock Appreciation Right granted under the Plan shall confer on the holder upon exercise the right to receive, as determined by the Committee, cash or a number of Shares whose Fair Market Value is equal to the excess of (A) the Fair Market Value of one Share on the date of exercise (or, if the Committee shall so determine in accordance with the requirements of Code Section 409A, at any time during a specified period not more than 30 days before or after the date of exercise) over (B) the grant price of the Stock Appreciation Right as determined by the Committee, which grant price shall not be less than 100% of the Fair Market Value of one Share on the date of grant of the Stock Appreciation Right. Subject to the terms of the Plan, the grant price, term, methods of exercise, dates of exercise, methods of settlement and any other terms and conditions (including conditions or restrictions on the exercise thereof) of any Stock Appreciation Right shall be as determined by the Committee, provided that in no event shall the term of a Stock Appreciation Right be longer than ten years.

(c) Restricted Stock and Restricted Stock Units. The Committee is hereby authorized to grant Restricted Stock and Restricted Stock Units to Eligible Individuals with the following terms and conditions and with such additional terms and conditions not inconsistent with the provisions of the Plan as the Committee shall determine:

(i) Restrictions. Shares of Restricted Stock and Restricted Stock Units shall be subject to such restrictions as the Committee may impose (including, without limitation, limitation on transfer, forfeiture conditions, limitation on the right to vote a Share of Restricted Stock or the right to receive any dividend or other right or property with respect thereto), which restrictions may lapse separately or in combination at such time or times, in such installments or otherwise as the Committee may deem appropriate. The grant or vesting of Restricted Stock and Restricted Stock Units may be performance-based or time-based or both. Restricted Stock and Restricted Stock Units may be Qualified Performance-Based Awards, in which event the grant or vesting, as applicable, of such Restricted Stock or Restricted Stock Units shall be conditioned upon the attainment of Performance Goals.

(ii) Stock Certificates; Delivery of Shares.

(A) Any Restricted Stock granted under the Plan shall be evidenced in such manner as the Committee may deem appropriate, including book-entry registration or issuance of one or more stock certificates. Any certificate issued in respect of shares of Restricted Stock shall be registered in the name of such Participant and shall bear an appropriate legend referring to the applicable Award Agreement and possible forfeiture of such shares of Restricted Stock. The Committee may require that the certificates evidencing such shares be held in custody by the Company until the restrictions thereon shall have lapsed and that, as a condition of any Award of Restricted Stock, the Participant shall have delivered a stock power, endorsed in blank, relating to the Shares covered by such Award.

(B) In the case of Restricted Stock Units, no Shares or other property shall be issued at the time such Awards are granted. Upon the lapse or waiver of restrictions and the restricted period relating to Restricted Stock Units (or at such later time as may be determined by the Committee), Shares or other cash or property shall be issued to the holder of the Restricted Stock Units and evidenced in such manner as the Committee may deem appropriate, including book-entry registration or issuance of one or more stock certificates.

(iii) Forfeiture. Except as otherwise determined by the Committee, upon a Participant's termination of employment (as determined under criteria established by the Committee) during the applicable restriction period, all applicable Shares of Restricted Stock and Restricted Stock Units at such time subject to restriction shall be forfeited and reacquired by the Company; provided, however, that the Committee may, when it finds that a waiver would be in the best interest of the Company, waive in whole or in part any or all remaining restrictions with respect to Shares of Restricted Stock or Restricted Stock Units.

(d) Performance Awards. The Committee is hereby authorized to grant Performance Awards to Eligible Individuals subject to the terms of the Plan. A Performance Award granted under the Plan (i) may be denominated or payable in cash, Shares (including, without limitation, Restricted Stock and Restricted Stock Units), other securities, other Awards or other property and (ii) shall confer on the holder thereof the right to receive payments, in whole or in part, upon the achievement of such performance goals during such performance periods as the Committee shall establish. Subject to the terms of the Plan, the performance goals to be achieved during any performance period, the length of any performance period, the amount of any Performance Award granted, the amount of any payment or transfer to be made pursuant to any Performance Award and any other terms and conditions of any Performance Award shall be determined by the Committee. The Committee may, prior to or at the time of the grant, designate Performance Awards as Qualified Performance-Based Awards, in which event it shall condition the settlement thereof upon the attainment of Performance Goals. Performance Awards denominated in cash that are payable to any individual Participant with respect to any calendar year will be limited to a maximum of $7,500,000.

(e) Dividend Equivalents. The Committee is hereby authorized to grant Dividend Equivalents to Eligible Individuals under which the Participant shall be entitled to receive payments (in cash, Shares, other securities, other Awards or other property as determined in the discretion of the Committee) equivalent in value to the amount of cash dividends paid by the Company to holders of Shares with respect to a number of Shares determined by the Committee. Subject to the terms of the Plan, such Dividend Equivalents may have such terms and conditions as the Committee shall determine, but no right to a Dividend Equivalent shall be contingent, directly or indirectly, upon the exercise of a Stock Option or Stock Appreciation Right.

(f) Other Stock Grants. The Committee is hereby authorized, subject to the terms of the Plan, to grant to Eligible Individuals Shares without restrictions thereon as are deemed by the Committee to be consistent with the purpose of the Plan.

(g) Other Stock-Based Awards. The Committee is hereby authorized to grant to Eligible Individuals, subject to the terms of the Plan, such other Awards that are denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, Shares (including, without limitation, securities convertible into Shares), as are deemed by the Committee to be consistent with the purpose of the Plan. Shares or other securities delivered pursuant to a purchase right granted under this Section 6(g) shall be purchased for such consideration, which may be paid by such method or methods and in such form or forms (including, without limitation, cash, Shares, other securities, other Awards or other property or any combination thereof), as the Committee shall determine, the value of which consideration, as established by the Committee, shall not be less than 100% of the Fair Market Value of such Shares or other securities as of the date such purchase right is granted.

(h) Tax Offset Bonus. The Committee may grant to a Participant, at the time of granting an Award or at any time thereafter, the right to receive a cash payment in an amount specified by the Committee, to be paid at such time or times (if ever) as the Award results in compensation income to the Participant, for the purpose of assisting the Participant to pay the resulting taxes, all as determined by the Committee and on such other terms and conditions as the Committee shall determine (a "Tax Offset Bonus"). Payment of a Tax Offset Bonus shall be made no later than the end of the Participant's taxable year next following the taxable year in which the Participant remits the resulting taxes.

(i) General.

(i) Consideration for Awards. Awards may be granted for no cash consideration or for any cash or other consideration as determined by the Committee and required by applicable law.

(ii) Awards May Be Granted Separately or Together. Awards may, in the discretion of the Committee, be granted either alone or in addition to, in tandem with or in substitution for any other Award or any award granted under any plan of the Company or any Affiliate. Awards granted in addition to or in tandem with other Awards or in addition to or in tandem with awards granted under any such other plan of the Company or any Affiliate may be granted either at the same time as or at a different time from the grant of such other Awards or awards.

(iii) Forms of Payment Under Awards. Subject to the terms of the Plan, payments or transfers to be made by the Company or an Affiliate upon the grant, exercise or settlement of an Award may be made in such form or forms as the Committee shall determine (including cash, Shares, other securities, other Awards or other property or any combination thereof); provided, however, that such payments or transfers shall not be in the form of promissory notes. Such payments or transfers may be made in a single payment or transfer, in installments or on a deferred basis, in each case in accordance with rules and procedures established by the Committee. Such rules and procedures may include, without limitation, provisions for the payment or crediting of reasonable interest on installment or deferred payments or the grant or crediting of Dividend Equivalents with respect to installment or deferred payments.

(iv) Limits on Transfer of Awards. No Award (other than Other Stock Grants) and no right under any such Award shall be transferable by a Participant otherwise than by will or by the laws of descent and distribution and the Company shall not be required to recognize any attempted assignment of such rights by any Participant; provided, however, that, if so determined by the Committee, a Participant may, in the manner established by the Committee, designate a beneficiary or beneficiaries to exercise the rights of the Participant and receive any property distributable with respect to any Award upon the death of the Participant; and provided, further, that, if so determined by the Committee, a Participant may transfer a Non-Qualified Stock Option to any Family Member (as such term is defined in the General Instructions to Form S-8 (or successor to such Instructions or such Form)) at any time that such Participant holds such Stock Option, whether directly or indirectly or by means of a trust or partnership or otherwise, provided that the Participant may not receive any consideration for such transfer, the Family Member may not make any subsequent transfers other than by will or by the laws of descent and distribution and the Company receives written notice of such transfer. Except as otherwise determined by the Committee, each Award or right under any such Award shall be exercisable during the Participant's lifetime only by the Participant or, if permissible under applicable law, by the Participant's guardian or legal representative. Except as otherwise determined by the Committee, no Award or right under any such Award may be pledged, alienated, attached or otherwise encumbered, and any purported pledge, alienation, attachment or other encumbrance thereof shall be void and unenforceable against the Company or any Affiliate.

(v) Term of Awards. Subject to Section 6(a)(ii) of the Plan, the term of each Award shall be for such period as may be determined by the Committee.

(vi) Restrictions. All Shares or other securities delivered under the Plan pursuant to any Award or the exercise thereof shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan, applicable federal or state securities laws and regulatory requirements, and the Committee may direct appropriate stop transfer orders and cause other legends to be placed on the certificates for such Shares or other securities to reflect such restrictions.

SECTION 7. Change in Control

(a) Impact of Event. Notwithstanding any other provision of the Plan to the contrary, unless otherwise provided by the Committee in any Award Agreement, in the event of a Change in Control:

(i) Any Stock Options and Stock Appreciation Rights outstanding as of the date of such Change in Control, and which are not then exercisable and vested, shall become fully exercisable and vested.

(ii) The restrictions applicable to any Restricted Stock and Restricted Stock Units shall lapse, and such Restricted Stock and Restricted Stock Units shall become free of all restrictions and become fully vested.

(iii) All Performance Awards shall be considered to be earned and payable in full, and any restriction shall lapse and such Performance Awards shall be settled in cash or Shares, as determined by the Committee, as promptly as is practicable.

(iv) All restrictions on other Awards shall lapse and such Awards shall become free of all restrictions and become fully vested.

(b) Definition of Change in Control. For purposes of the Plan, and unless otherwise provided in an applicable Award Agreement, a "Change in Control" shall mean the happening of any of the following events:

(i) An acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either (1) the then outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (2) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); excluding, however, the following: (1) Any acquisition directly from the Company, other than an acquisition by virtue of the exercise of a conversion privilege unless the security being so converted was itself acquired directly from the Company, (2) Any acquisition by the Company, (3) Any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any entity controlled by the Company, or (4) Any acquisition pursuant to a transaction which complies with clauses (1), (2) and (3) of subsection (iii) of this Section 7(b); or

(ii) A change in the composition of the Board such that the individuals who, as of the Effective Date, constitute the Board (such Board shall be hereinafter referred to as the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, for purposes of this Section 7(b), that any individual who becomes a member of the Board subsequent to the Effective Date, whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of those individuals who are members of the Board and who were also members of the Incumbent Board (or deemed to be such pursuant to this proviso) shall be considered as though such individual were a member of the Incumbent Board; but, provided, further, that any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board shall not be so considered as a member of the Incumbent Board; or

(iii) Consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company ("Corporate Transaction"); excluding, however, such a Corporate Transaction pursuant to which (1) all or substantially all of the individuals and entities who are the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Corporate Transaction will beneficially own, directly or indirectly, more than 50% of, respectively, the outstanding shares of common stock, and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Corporate Transaction (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Corporate Transaction, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (2) no Person (other than the Company, any employee benefit plan (or related trust) of the Company or such corporation resulting from such Corporate Transaction) will beneficially own, directly or indirectly, 20% or more of, respectively, the outstanding shares of common stock of the corporation resulting from such Corporate Transaction or the combined voting power of the outstanding voting securities of such corporation entitled to vote generally in the election of directors except to the extent that such ownership existed prior to the Corporate Transaction, and (3) individuals who were members of the Incumbent Board will constitute at least a majority of the members of the board of directors of the corporation resulting from such Corporate Transaction; or

(iv) The approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

SECTION 8. Income Tax Withholding

No later than the date as of which an amount first becomes includible in the gross income of a Participant for federal or foreign income tax purposes with respect to any Award under the Plan, the Participant shall pay to the Company, or make arrangements satisfactory to the Company regarding the payment of, any federal, state, local or foreign taxes of any kind required by law to be withheld with respect to such amount. The obligations of the Company under the Plan shall be conditional on such payment or arrangements, and the Company and its Affiliates shall, to the extent permitted by law, be entitled to take such action and establish such procedures as it deems appropriate to withhold or collect all applicable payroll, withholding, income or other taxes from such Participant, including without limitation withholding applicable tax from Participant's cash compensation paid by the Company or an Affiliate. In order to assist a Participant in paying all or a portion of the federal, state, local and foreign taxes to be withheld or collected upon exercise or receipt of (or the lapse of restrictions relating to) an Award, the Committee, in its discretion and subject to such additional terms and conditions as it may adopt, may permit the Participant to satisfy such tax obligation by (i) electing to have the Company withhold a portion of the Shares or other property otherwise to be delivered upon exercise or receipt of (or the lapse of restrictions relating to) such Award with a Fair Market Value equal to the amount of such taxes or (ii) delivering to the Company Shares or other property other than Shares issuable upon exercise or receipt of (or the lapse of restrictions relating to) such Award with a Fair Market Value equal to the amount of such taxes, provided that, in either case, not more than the legally required minimum withholding may be settled with Shares. Any such election must be made on or before the date that the amount of tax to be withheld is determined.

SECTION 9. Amendment and Termination

(a) Amendments to the Plan. The Board may amend, alter, suspend, discontinue or terminate the Plan at any time; provided, however, that, notwithstanding any other provision of the Plan or any Award Agreement, without the approval of the stockholders of the Company, no amendment, alteration, suspension, discontinuation or termination shall be made that, absent such approval:

(i) requires stockholder approval under the rules or regulations of the New York Stock Exchange, any other securities exchange or the National Association of Securities Dealers, Inc. that are applicable to the Company; or

(ii) increases the number of Shares authorized under the Plan as specified in Section 4(a) of the Plan.

(b) Amendments to Awards. The Committee may waive any conditions of or rights of the Company under any outstanding Award, prospectively or retroactively. Except as otherwise provided herein or in an Award Agreement, the Committee may not amend, alter, suspend, discontinue or terminate any outstanding Award, prospectively or retroactively, if such action would adversely affect the rights of the holder of such Award, without the consent of the Participant or holder or beneficiary thereof or such amendment would cause a Qualified Performance-Based Award to cease to qualify for the Section 162(m) Exemption. The Committee may unilaterally amend any Award, and it will be conclusively presumed that such action will not adversely affect the rights of the holder of such Award, if such amendment is determined by the Committee to be necessary to cause the Award to be exempt from the application of, or to comply with, Code Section 409A.

(c) Correction of Defects, Omissions and Inconsistencies. The Committee may correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award in the manner and to the extent it shall deem desirable to carry the Plan into effect.

SECTION 10. General Provisions

(a) No Rights to Awards. No Eligible Individual or other person shall have any claim to be granted any Award under the Plan, and there is no obligation for uniformity of treatment of Eligible Individuals or holders or beneficiaries of Awards under the Plan. The terms and conditions of Awards need not be the same with respect to any Participant or with respect to different Participants.

(b) Award Agreements. No Participant will have rights under an Award granted to such Participant unless and until an Award Agreement shall have been duly executed on behalf of the Company and, if requested by the Company, signed by the Participant. In the event that any provision of an Award Agreement conflicts with or is inconsistent in any respect with the terms of the Plan as set forth herein or subsequently amended, the terms of the Plan shall control.

(c) No Rights of Stockholders. Except with respect to Shares of Restricted Stock as to which the Participant has been granted the right to vote, neither a Participant nor the Participant's legal representative shall be, or have any of the rights and privileges of, a stockholder of the Company with respect to any Shares issuable to such Participant upon the exercise or payment of any Award, in whole or in part, unless and until such Shares have been issued in the name of such Participant or such Participant's legal representative without restrictions thereto.

(d) No Limit on Other Compensation Plans or Arrangements. Nothing contained in the Plan shall prevent the Company or any Affiliate from adopting or continuing in effect other or additional compensation arrangements, and such arrangements may be either generally applicable or applicable only in specific cases.

(e) No Right to Employment. The Plan shall not constitute a contract of employment, and adoption of the Plan or the grant of an Award shall not be construed as giving a Participant the right to be retained as an employee of the Company or an Affiliate, or a non-employee Director to be retained as a Director, nor shall it affect in any way the right of the Company or an Affiliate to terminate such employment at any time, with or without cause. In addition, the Company or an Affiliate may at any time dismiss a Participant from employment free from any liability or any claim under the Plan or any Award, unless otherwise expressly provided in the Plan or in any Award Agreement.

(f) Governing Law. The Plan and all Awards granted and actions taken thereunder shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to principles of conflict of laws thereof.

(g) Severability. If any provision of the Plan or any Award is or becomes or is deemed to be invalid, illegal or unenforceable in any jurisdiction or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be so construed or deemed amended without, in the determination of the Committee, materially altering the purpose or intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction or Award, and the remainder of the Plan or any such Award shall remain in full force and effect.

(h) Application to Participants Outside the United States. In the event an Award is granted to a Participant who is employed or providing services outside the United States and who is not compensated from a payroll maintained in the United States, the Committee may, in its sole discretion, modify the provisions of the Plan as they pertain to such individual to comply with applicable foreign law.

(i) No Trust or Fund Created. Neither the Plan nor any Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company or any Affiliate and an Eligible Individual or any other person. To the extent that any person acquires a right to receive payments from the Company or any Affiliate pursuant to an Award, such right shall be no greater than the right of any unsecured general creditor of the Company or any Affiliate.

(j) Other Benefits. No compensation or benefit awarded to or realized by any Participant under the Plan shall be included for the purpose of computing such Participant’s compensation under any compensation-based retirement, disability, or similar plan of the Company unless required by law or otherwise provided by such other plan.

(k) No Fractional Shares. No fractional Shares shall be issued or delivered pursuant to the Plan or any Award, and the Committee shall determine whether cash shall be paid in lieu of any fractional Shares or whether such fractional Shares or any rights thereto shall be canceled, terminated or otherwise eliminated.

(l) Headings. Headings are given to the Sections and subsections of the Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.

(m) Section 16 Compliance; Section 162(m) Administration. The Plan is intended to comply in all respects with Rule 16b-3 or any successor provision, as in effect from time to time, and in all events the Plan shall be construed in accordance with the requirements of Rule 16b-3. If any Plan provision does not comply with Rule 16b-3 as hereafter amended or interpreted, the provision shall be deemed inoperative. The Board, in its absolute discretion, may bifurcate the Plan so as to restrict, limit or condition the use of any provision of the Plan with respect to persons who are officers or directors subject to Section 16 of the Exchange Act without so restricting, limiting or conditioning the Plan with respect to other Eligible Individuals. The Company intends that all Stock Options and Stock Appreciation Rights granted under the Plan to individuals who are or who the Committee believes will be Covered Employees will constitute “qualified performance-based compensation” within the meaning of Section 162(m) of the Code.

(n) Conditions Precedent to Issuance of Shares. Shares shall not be issued pursuant to the exercise or payment of the Exercise Price or purchase price relating to an Award unless such exercise or payment and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended from time to time, the Exchange Act, the rules and regulations promulgated thereunder, the requirements of any applicable stock exchange and the Delaware General Corporation Law. As a condition to the exercise or payment of the Exercise Price or purchase price relating to such Award, the Company may require that the person exercising or paying the Exercise Price or purchase price represent and warrant that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation and warranty is required by law.

(o) Conformance to Section 409A of the Code. To the extent that any Award constitutes a deferral of compensation subject to Section 409A of the Code, the following provisions shall apply notwithstanding any other provision of the Plan:

(i) If such Award provides for a change in the time or form of payment of such Award upon a Change in Control of the Company, no Change in Control shall be deemed to have occurred upon an event described in Section 7(b) of the Plan unless such event would also constitute a change in ownership or effective control of, or a change in the ownership of a substantial portion of the assets of, the Company under Section 409A of the Code.

(ii) If any amount is payable under such Award upon a termination of employment or other service, a termination of employment or other service will be deemed to have occurred only at such time as the Participant has experienced a “separation from service” as such term is defined for purposes of Code Section 409A.

(iii) If any amount shall be payable with respect to any such Award as a result of a Participant’s “separation from service” at such time as the Participant is a “specified employee,” then no payment shall be made, except as permitted under Code Section 409A, prior to the first day of the seventh (7th) calendar month beginning after the Participant’s separation from service (or the date of his or her earlier death). The Company may adopt a “specified employee identification policy” which specifies the identification date, the effective date of any change in the key employee group, compensation definition and other variables that are relevant in identifying specified employees, and which may include an alternative method of identifying specified employees consistent with the regulations under Code Section 409A. In the absence of any such policy or policy provision, for purposes of the above, the “identification date” is each December 31st, and an employee who satisfies the above conditions will be considered to be a “specified employee” from April 1st following the identification date to March 31st of the following year, and the compensation and other variables, and special rules for corporate events and special rules relating to nonresident aliens, that is necessary in identifying specified employees will be determined and applied in accordance with the defaults specified in the regulations under Code Section 409A. Any Specified Employee Identification Policy will apply uniformly to all nonqualified deferred compensation plans subject to Code Section 409A that are maintained by the Company or an Affiliate.

To the extent the Committee elects to exercise its discretion to permit or require a Participant to defer receipt of cash or Shares that would otherwise be due to him or her under the Plan upon the vesting or settlement of any Award, such deferral shall occur in accordance with a written plan, rules or procedures adopted for that purpose by the Committee. Any such plan, rules or procedures shall comply with the requirements of Code Section 409A, including those with respect to the time when a deferral election may be made, the period of the deferral and the events that would result in the payment of the deferred amount.

SECTION 11. Effective Date of Plan

Upon its adoption by the Board, the Plan shall be submitted for approval by the stockholders of the Company and shall be effective as of the date of such approval (the "Effective Date").

SECTION 12. Term of the Plan

The Plan will terminate on the tenth anniversary of the Effective Date or any earlier date of discontinuation or termination established pursuant to Section 9 of the Plan. However, unless otherwise expressly provided in the Plan or in an applicable Award Agreement, any Award theretofore granted may extend beyond such date, and the authority of the Committee provided for hereunder with respect to the Plan and any Awards, and the authority of the Board to amend the Plan, shall extend beyond the termination of the Plan.

Exhibit 10.16

PIPER JAFFRAY COMPANIES
2009 Compensation and Benefits for Non-Employee Directors

	Amount	*Objective*	*Time and Terms of Payment*
Annual Cash Retainer	$ 50,000	Consideration for Board and committee service for the current calendar year	Paid on the first business day in January. For directors joining the Board after January in any year, a pro rata amount will be paid on the date the director is elected to the Board based on the number of days during which the director will serve on the Board during that year.
Additional Annual Cash Retainer for Lead Director and Committee Chairpersons	$8,000 Lead Director $8,000-Audit $5,000-Others	Consideration for service as lead director or committee chairperson for the current calendar year	Paid on the first business day in January.
Initial Equity Grant	500 Shares	Establish PJC equity interest upon initial election to the Board to align director and shareholder interests	Shares of PJC common stock granted on the date of the director's initial election or appointment to the Board.
Annual Equity Grant	1,000 Shares	Incentive compensation for continuing service on the Board and enhanced alignment of director and shareholder interests	Shares of PJC common stock granted on the date of the annual meeting of shareholders to any director whose service on the Board will continue following the annual meeting. For directors joining the Board after the annual meeting in any year, an equity award will be granted on the date the director is elected to the Board covering a pro rata number of shares based on the number of days during which the director will serve on the Board during that year.
Deferral Opportunity	Up to $58,000 Up to 1,000 shares	Increase equity stake by directors	Annual opportunity to participate in the Amended and Restated Piper Jaffray Companies Deferred Compensation Plan for Non-Employee Directors, permitting deferral into phantom stock units of all or a portion of the director's annual cash compensation for service as a Piper Jaffray Companies director, and deferral of any shares granted in consideration of the director's service as a director. To participate in any year, irrevocable election must be made by December 31 of the preceding year for continuing directors and on the date of initial election or appointment to the Board for new directors. Annual opportunity to change the subsequent year's election. The deferral date for the cash retainer is the first business day in January each year; the deferral date for the equity grant is the date of the annual meeting of shareholders each year.
Charitable Gift Matching Program	Up to $1,500	Encourage charitable giving	Pursuant to the Piper Jaffray Gift Matching Program, Piper Jaffray will match directors' gifts to eligible organizations dollar for dollar from a minimum of $50 up to an aggregate maximum of $1,500 per year (the same terms and conditions as are applicable to employees).

Reimbursement of In addition to the foregoing, non-employee directors will be reimbursed for reasonable out-of-pocket

Out-of-Pocket Expenses	expenses incurred in connection with their service on the Board and Board committees.

Exhibit 13.1
Piper Jaffray Companies

SELECTED FINANCIAL DATA

The following table presents our selected consolidated financial data for the periods and dates indicated. The information set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and notes thereto.

FOR THE YEAR ENDED DECEMBER 31,

(Dollars and shares in thousands, except per share data)	2008	2007(2) (Restated)	2006(2) (Restated)	2005	2004
Revenues:					
Investment banking	**$ 159,747**	$ 302,428	$ 298,309	$ 251,750	$ 234,925
Institutional brokerage	**117,201**	151,464	160,502	155,990	174,311
Interest	**48,496**	60,873	64,110	44,857	35,718
Asset management	**16,969**	6,446	222	227	5,093
Other income	**2,639**	6,856	14,208	978	6,580
Total revenues	**345,052**	528,067	537,351	453,802	456,627
Interest expense	**18,655**	23,689	32,303	32,494	22,421
Net revenues	**326,397**	504,378	505,048	421,308	434,206
Non-interest expenses:					
Compensation and benefits	**249,438**	329,811	357,904	243,833	251,187
Restructuring-related expenses	**17,865**	–	–	8,595	–
Goodwill impairment	**130,500**	–	–	–	–
Other	**152,201**	144,138	113,796	132,849	133,981
Total non-interest expenses	**550,004**	473,949	471,700	385,277	385,168
Income/(loss) from continuing operations before income tax expense/(benefit)	**(223,607)**	30,429	33,348	36,031	49,038
Income tax expense/(benefit)	**(40,133)**	5,790	10,210	10,863	16,727
Net income/(loss) from continuing operations	**(183,474)**	24,639	23,138	25,168	32,311
Discontinued operations:					
Income/(loss) from discontinued operations, net of tax	**499**	(2,696)	172,287	14,915	18,037
Net income/(loss)	**$ (182,975)**	$ 21,943	$ 195,425	$ 40,083	$ 50,348
Earnings per basic common share					
Income/(loss) from continuing operations	**$ (11.59)**	$ 1.50	$ 1.29	$ 1.34	$ 1.67
Income/(loss) from discontinued operations	**0.03**	(0.16)	9.57	0.79	0.93
Earnings per basic common share	**$ (11.55)**	$ 1.33	$ 10.86	$ 2.13	$ 2.60
Earnings per diluted common share					
Income/(loss) from continuing operations	**$ (11.59)**	$ 1.36	$ 1.19	$ 1.32	$ 1.67
Income/(loss) from discontinued operations	**0.03**	(0.15)	8.88	0.78	0.93
Earnings per diluted common share	**$ (11.55)**(1)	$ 1.21	$ 10.07	$ 2.10	$ 2.60
Weighted average number of common shares					
Basic	**15,837**	16,474	18,002	18,813	19,333
Diluted	**18,198**	18,117	19,399	19,081	19,399
Other data					
Total assets	**$ 1,320,158**	$ 1,759,986	$ 1,876,652	$ 2,354,191	$ 2,828,257
Long-term debt	**$ –**	$ –	$ –	$ 180,000	$ 180,000
Shareholders' equity	**$ 747,979**	$ 895,147	$ 904,856	$ 754,827	$ 725,428
Total employees	**1,045**	1,205	1,082	2,834	3,005

(1) In accordance with SFAS 128, earnings per diluted common share is calculated using the basic weighted average number of common shares outstanding in periods a loss is incurred.
(2) Financial information for 2007 and 2006 was restated as disclosed in Note 1 to the consolidated financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following information should be read in conjunction with the accompanying 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 this Annual Report on Form 10-K and in our subsequent reports filed with the SEC. Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ materially from those anticipated, including those factors discussed below under "External Factors Impacting Our Business" as well as the factors identified under "Risk Factors" in Part I, Item 1A of this Annual Report on Form 10-K, as updated in our subsequent reports filed with the SEC. These reports are available at our web site at www.piperjaffray.com and at the SEC web site at www.sec.gov. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update them in light of new information or future events.

Explanatory Note Concerning Restatement

On February 2, 2009, the Company filed a Form 8-K reporting that the Company's previously issued (i) interim financial statements included in its Quarterly Reports on Form 10-Q for the periods ended March 31, June 30, and September 30, 2008 and (ii) annual financial statements for the years ended December 31, 2007 and 2006 included in its Annual Report on Form 10-K (collectively, the "Affected Financial Statements"), and the related reports of its independent registered public accounting firm, Ernst & Young LLP, should no longer be relied upon.

As part of the compensation paid to employees, the Company uses stock-based compensation, consisting of restricted stock and stock options. Since January 1, 2006, the Company accounts for stock-based compensation in accordance with Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment" (SFAS 123(R)). Stock-based compensation was generally amortized on a straight-line basis over the vesting period of the award, which was typically three years. The majority of restricted stock and option grants provide for continued vesting after termination, provided that the employee does not violate certain post-termination restrictions as set forth in the award agreements or any agreements entered into upon termination. As previously disclosed in the critical accounting policies section of our quarterly and annual SEC filings, we believed that our vesting provisions met the SFAS 123(R) definition of an in-substance service condition. Therefore, the Company considered the required service period to be the greater of the vesting period or the post-termination restricted period.

In the fourth quarter of 2008, management re-evaluated whether the post-termination restrictions of certain equity awards would continue to meet the criteria for an in-substance service condition given the historic changes to the industry. Following an extensive analysis, management concluded in January 2009, in consultation with our auditors, that the post-termination restrictions had never met the criteria for an in-substance service condition for awards granted since January 1, 2006 based on the manner in which those complex criteria are interpreted in practice. This determination necessitated a restatement of the Affected Financial Statements to recognize expense for all of those equity awards in the year in which those awards were deemed to be earned, rather than over the three-year vesting period.

The total expense impact resulting from the revised stock-based compensation treatment was $51.7 million after-tax ($81.5 million pre-tax) for the three year period ended December 31, 2008, which includes the unamortized expense for the affected equity awards that were granted in 2008, 2007 and 2006 and an accrual for the equity awards earned in 2008 that were granted in February 2009. The total expense was largely non-cash. The cumulative impact on shareholders' equity as of December 31, 2008 was an increase of $13.5 million, essentially all driven by the deferred tax benefit associated with the increase in expense.

See Note 1 to our consolidated financial statements included in our 2008 Annual Report to Shareholders (which is incorporated by reference and is included in Exhibit 13.1 to this Form 10-K) for the details of the financial statement line items impacted by the restatement.

Executive Overview

Our business principally consists of providing investment banking, institutional brokerage, asset management and related financial services to middle-market companies, private equity groups, public entities, non-profit entities and institutional investors in the United States, Europe and Asia. We generate revenues primarily through the receipt of advisory and financing fees earned on investment banking activities, commissions and sales credits earned on equity and fixed income institutional sales and trading activities, net interest earned on securities inventories, profits and losses from trading activities related to these securities inventories and asset management fees.

The securities 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.

In 2007, we expanded our asset management and capital markets businesses through acquisition. On September 14, 2007, we acquired Fiduciary Asset Management, LLC ("FAMCO"), a St. Louis-based asset management firm. On October 2, 2007, we acquired Goldbond Capital Holdings Limited ("Goldbond"), a Hong Kong-based investment bank. The acquisitions resulted in incremental revenues and expenses in the first three quarters of 2008, when compared with the comparable periods in 2007.

During 2008, the financial services industry faced a historically challenging operating environment. A severe downturn in the economy led to declines in asset valuation, high levels of volatility across various asset classes and reduced levels of liquidity. During this period of financial market turmoil, the investment banking industry experienced a historic reshaping. The industry witnessed the bankruptcy of Lehman Brothers Holdings Inc., multiple consolidations and mergers of financial institutions, the conservatorship of Federal Home Loan Mortgage Corporation (Freddie Mac) and Federal National Mortgage Association (Fannie Mae) by the U.S. Federal Government and the passage of the Emergency Economic Stabilization Act of 2008. We have two key priorities for our firm as we manage through this difficult environment: 1) to appropriately adjust our cost structure to enable us to operate through the difficult period, and 2) to position our firm for when the markets eventually turn positive. In terms of the first priority, we executed a number of steps during 2008, including headcount reductions, moving to a more flexible compensation structure and reducing non-compensation expenses, all of which will help us work to achieve profitability at lower revenue levels than historically. In terms of the second priority, we are mindful that our firm has an opportunity to capitalize on the turmoil in the competitive landscape. We believe that we have an opportunity to selectively extend our franchise and enhance our talent base with experienced individuals or teams during these challenging times, particularly in public finance, equity distribution (including electronic trading), and equity investment banking. We also expect that our business will benefit over the long-term from market share available from competitors who are no longer in the business or have been diminished.

RESULTS FOR THE YEAR ENDED DECEMBER 31, 2008

For the year ended December 31, 2008, we recorded a net loss, including continuing and discontinued operations, of $183.0 million, or $11.55 per diluted share, compared with net income of $21.9 million, or $1.21 per diluted share, for the prior year. The net loss for 2008 included several significant items: (1) a $127.1 million after-tax charge for impairment of goodwill related to our capital markets business; (2) $11.0 million of after-tax restructuring charges; and (3) $4.9 million of after-tax expense for deal write-offs related to travel and legal expenses. Net revenues from continuing operations for the year ended December 31, 2008 were $326.4 million, down 35.3 percent from $504.4 million reported in the prior year.

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MARKET DATA

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

YEAR ENDED DECEMBER 31,	2008	2007	2006	2008 v 2007	2007 v 2006
Dow Jones Industrials Average *a*	**8,776**	13,265	12,463	(33.8)%	6.4%
NASDAQ *a*	**1,577**	2,652	2,415	(40.5)	9.8
NYSE Average Daily Number of Shares Traded (MILLIONS OF SHARES)	**2,609**	2,111	1,827	23.6	15.6
NASDAQ Average Daily Number of Shares Traded (MILLIONS OF SHARES)	**2,259**	2,132	2,002	6.0	6.5
Mergers and Acquisitions (NUMBER OF TRANSACTIONS IN U.S.) *b*	**9,653**	11,510	10,950	(16.1)	5.1
Public Equity Offerings (NUMBER OF TRANSACTIONS IN U.S.) *c e*	**401**	808	794	(50.4)	1.8
Initial Public Offerings (NUMBER OF TRANSACTIONS IN U.S.) *c*	**48**	196	180	(75.5)	8.9
Managed Municipal Underwritings (NUMBER OF TRANSACTIONS IN U.S.) *d*	**10,635**	12,659	12,752	(16.0)	(0.7)
Managed Municipal Underwritings (VALUE OF TRANSACTIONS IN BILLIONS IN U.S.) *d*	**$ 390.6**	$ 429.9	$ 388.6	(9.1)	10.6
10-Year Treasuries Average Rate	**3.67%**	4.63%	4.79%	(20.7)	(3.3)
3-Month Treasuries Average Rate	**1.37%**	4.35%	4.73%	(68.5)	(8.0)

(a) Data provided is at period end.
(b) Source: Securities Data Corporation.
(c) Source: Dealogic (offerings with reported market value greater than $20 million).
(d) Source: Thomson Financial.
(e) Number of transactions includes convertible offerings.

EXTERNAL FACTORS IMPACTING OUR BUSINESS

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

Factors that differentiate our business within the financial services industry also may affect our financial results. For example, our business focuses on a middle-market clientele in specific industry sectors. In 2008, many of these sectors experienced a downturn as the recession impacted almost all businesses, which materially adversely affected our business and results of operations. If the business environment for our focus sectors continues to suffer, impacts one or more sectors disproportionately as compared to the economy as a whole, or does not recover on pace with other sectors of the economy, our business and results of operations will be negatively impacted. In addition, our business could be affected differently than overall market trends. Given the variability of the capital markets and securities businesses, our earnings may fluctuate significantly from period to period, and results for any individual period should not be considered indicative of future results.

OUTLOOK FOR 2009

In 2008, global economic and financial market conditions were extraordinarily difficult. We anticipate that the challenging environment will persist in 2009. Our financial performance depends heavily on investment banking activity, and with the equity capital markets essentially on hold and advisory activity muted, we anticipate that our results will be negatively impacted. Lower grade public finance underwriting activity will likely also be reduced for some time. We anticipate equity and municipal sales and trading will continue to perform reasonably well, although there can be no assurance in this regard.

In response to this outlook, we have executed a number of steps, including headcount reductions, moving to a more flexible compensation structure, and reducing non-compensation expenses, all of which will help us work to achieve profitability at lower revenue levels than historically. In 2008, our breakeven revenue level was in the mid-$400 million range, and we expect our

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breakeven revenue level will be in the mid-$300 million range for 2009. However, there can be no assurance that we will achieve these goals and performance objectives, and if we fail to do so, our operating results could be adversely affected, potentially significantly.

Results of Operations

FINANCIAL SUMMARY

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.

FOR THE YEAR ENDED DECEMBER 31, *(Amounts in thousands)*	2008	2007	2006	2008 v 2007	2007 v 2006	*AS A PERCENTAGE OF NET REVENUES FOR THE YEAR ENDED DECEMBER 31,* 2008	2007	2006
		(Restated)	*(Restated)*				*(Restated)*	*(Restated)*
Revenues:								
Investment banking	**$ 159,747**	$ 302,428	$ 298,309	(47.2)%	1.4%	**48.9%**	59.9%	59.1%
Institutional brokerage	**117,201**	151,464	160,502	(22.6)	(5.6)	**35.9**	30.0	31.8
Interest	**48,496**	60,873	64,110	(20.3)	(5.0)	**14.9**	12.1	12.7
Asset management	**16,969**	6,446	222	163.2	N/M	**5.2**	1.3	0.0
Other income	**2,639**	6,856	14,208	(61.5)	(51.7)	**0.8**	1.4	2.8
Total revenues	**345,052**	528,067	537,351	(34.7)	(1.7)	**105.7**	104.7	106.4
Interest expense	**18,655**	23,689	32,303	(21.3)	(26.7)	**5.7**	4.7	6.4
Net revenues	**326,397**	504,378	505,048	(35.3)	(0.1)	**100.0**	100.0	100.0
Non-interest expenses:								
Compensation and benefits	**249,438**	329,811	357,904	(24.4)	(7.8)	**76.4**	65.4	70.9
Occupancy and equipment	**33,034**	32,482	30,660	1.7	5.9	**10.1**	6.4	6.0
Communications	**25,098**	24,772	23,189	1.3	6.8	**7.7**	4.9	4.6
Floor brokerage and clearance	**12,787**	14,701	13,292	(13.0)	10.6	**3.9**	2.9	2.6
Marketing and business development	**25,249**	26,619	24,664	(5.1)	7.9	**7.8**	5.3	4.9
Outside services	**41,212**	34,594	28,053	19.1	23.3	**12.6**	6.9	5.6
Restructuring-related expense	**17,865**	–	–	N/M	N/M	**5.5**	–	–
Goodwill impairment	**130,500**	–	–	N/M	N/M	**40.0**	–	–
Other operating expenses	**14,821**	10,970	(6,062)	35.1	N/M	**4.5**	2.2	(1.2)
Total non-interest expenses	**550,004**	473,949	471,700	16.0%	0.5	**168.5**	94.0	93.4
Income/(loss) from continuing operations before income tax expense/(benefit)	**(223,607)**	30,429	33,348	N/M	(8.8)	**(68.5)**	6.0	6.6
Income tax expense/(benefit)	**(40,133)**	5,790	10,210	N/M	(43.3)	**(12.3)**	1.1	2.0
Net income/(loss) from continuing operations	**(183,474)**	24,639	23,138	N/M	6.5	**(56.2)**	4.9	4.6
Discontinued operations:								
Income/(loss) from discontinued operations, net of tax	**499**	(2,696)	172,287	N/M	N/M	**0.1**	(0.5)	34.1
Net income/(loss)	**$ (182,975)**	$ 21,943	$ 195,425	N/M	(88.8)%	**(56.1)%**	4.4%	38.7%

N/M — Not Meaningful

For the year ended December 31, 2008, we recorded a net loss, including continuing and discontinued operations, of $183.0 million. Net revenues from continuing operations were $326.4 million, a 35.3 percent decline compared to $504.4 million in 2007. In 2008, investment banking revenues decreased 47.2 percent to $159.7 million compared with revenues of $302.4 million in 2007. The financial turmoil in 2008 resulted in reduced revenues in all areas of investment banking. Equity financing revenues contributed to the majority of the decline as the equity capital markets were essentially on hold in the second half of 2008. Institutional brokerage revenues declined 22.6 percent to $117.2 million in 2008, from $151.5 million in 2007. Equity sales and trading revenues increased compared to 2007, but were more than offset by a decline in fixed income sales and trading revenues, primarily due to losses on our tender option bond ("TOB") program and high yield and structured products. In 2008, net interest income decreased 19.7 percent to $29.8 million, compared with $37.2 million in 2007. The decrease was primarily driven by increased borrowing levels in 2008. In 2008, asset management fees were $17.0 million, almost all of which was generated by FAMCO, which we acquired in September 2007. In 2008, other income decreased to $2.6 million, compared with $6.9 million in 2007, primarily due to losses recorded on our principal investments. Non-interest expenses increased to $550.0 million in 2008, from $473.9 million in 2006. This increase resulted from a $130.5 million pre-tax charge for impairment of goodwill related to our capital markets business, $17.9 million of restructuring-related charges and $8.0 million in incremental expenses associated with FAMCO and Goldbond, which we acquired in September and October 2007, respectively. This increase was offset in part by a decline in compensation and benefits expenses.

For the year ended December 31, 2007, net income, including continuing and discontinued operations, totaled $21.9 million. Net revenues from continuing operations were $504.4 million, essentially flat compared with 2006. In 2007, investment banking revenues increased slightly to $302.4 million as increases in equity financing revenues more than offset the decline in debt financing and advisory services revenues. Institutional brokerage revenues declined 5.6 percent to $151.5 million in 2007, from $160.5 million in 2006. Equity sales and trading revenues were essentially flat compared to 2006. Fixed income sales and trading revenues declined, primarily driven by the turmoil in the financial markets in the last half of 2007. In 2007, net interest income increased to $37.2 million, compared with $31.8 million in 2006. The increase was primarily a result of significantly reduced borrowing needs following the sale of our PCS branch network in August 2006. In 2007, asset management fees were $6.5 million, almost all of which were generated by FAMCO. In 2007, other income was $6.8 million, compared with $14.2 million in 2006, primarily due to a $9.9 million gain in 2006 related to our ownership of two seats on the New York Stock Exchange, which were exchanged for cash and restricted shares of common stock of NYSE Euronext. Non-interest expenses of $473.9 million in 2007 were essentially flat compared with 2006 as a decline in compensation and benefit expenses was offset by a change in litigation reserves. In 2006, we recorded a $21.3 million expense reduction related to litigation reserves pertaining to developments in a specific industry wide litigation matter.

CONSOLIDATED NON-INTEREST EXPENSES

Compensation and Benefits – Compensation and benefits expenses, which are the largest component of our expenses, include salaries, bonuses, commissions, benefits, stock-based compensation, employment taxes and other employee costs. A substantial portion of compensation expense is comprised of variable incentive arrangements, including discretionary bonuses, 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 bonus payments, which generally occur in February, have a greater impact on our cash position and liquidity, than is reflected in our statements of operations.

In 2008, compensation and benefits expenses decreased 24.4 percent to $249.4 million from $329.8 million in 2007. This decrease was due to lower variable compensation costs resulting from reduced net revenues and profitability partially offset by guarantees of fixed incentive compensation. Compensation and benefits expenses as a percentage of net revenues were 76.4 percent for 2008, compared with 65.4 percent for 2007. At the end of 2008, a significant portion of our guaranteed incentive compensation matured, resulting in a compensation structure that is more variable and better aligned with profitability and revenues for 2009.

Compensation and benefits expenses decreased 7.8 percent to $329.8 million in 2007, from $357.9 million in 2006. This decrease resulted from the adoption of SFAS 123(R) on January 1, 2006, which caused us to recognize in 2006 the unamortized expense for equity awards granted in 2006 as well as an accrual for the equity awards earned in 2006 that were granted in

2007. Compensation and benefits expenses as a percentage of net revenues were 65.4 percent for 2007, compared with 70.9 percent for 2006.

Occupancy and Equipment – Occupancy and equipment expenses were $33.0 million in 2008, compared with $32.5 million in 2007. The increase was primarily attributable to additional occupancy expenses from our acquisitions of FAMCO and Goldbond in late 2007, offset in part by a decline in base rent as we consolidated existing locations.

In 2007, occupancy and equipment expenses were $32.5 million, compared with $30.7 million in 2006. The increase was driven by higher base rent costs during 2007 associated with new and existing locations, as well as $0.7 million of additional occupancy expense from the acquisitions of FAMCO and Goldbond in September and October 2007, respectively.

Communications – Communication expenses include costs for telecommunication and data communication, primarily consisting of expenses for obtaining third-party market data information. In 2008, communication expenses were $25.1 million, essentially flat compared with 2007.

In 2007, communication expenses were $24.8 million, an increase of 6.8 percent from 2006. The increase was primarily attributable to higher market data service expenses from obtaining expanded services and price increases.

Floor Brokerage and Clearance – Floor brokerage and clearance expenses in 2008 decreased 13.0 percent to $12.8 million, compared with 2007, due to lower expenses associated with accessing electronic communications networks.

In 2007, floor brokerage and clearance expenses increased 10.6 percent to $14.7 million, compared with 2006, due to higher expenses associated with providing after-market support of deal-related stocks.

Marketing and Business Development – Marketing and business development expenses include travel and entertainment and promotional and advertising costs. In 2008, marketing and business development expenses decreased 5.1 percent to $25.2 million, compared with $26.6 million in the prior year. This decrease was a result of a decline in travel costs resulting from significantly lower deal activity in 2008.

In 2007, marketing and business development expenses increased 7.9 percent to $26.6 million, compared with $24.7 million in the prior year. This increase was primarily a result of higher travel costs driven by our international expansion.

Outside Services – Outside services expenses include securities processing expenses, outsourced technology functions, outside legal fees and other professional fees. In 2008, outside services expenses increased to $41.2 million, compared with $34.6 million in 2007. This increase was primarily due to the write-off of legal expenses for equity financings that were not completed because of the deterioration in the capital markets, incremental costs related to the 2007 acquisitions of FAMCO and Goldbond and fees incurred to secure the revolving credit facility that we entered into in the first quarter of 2008. Partially offsetting these increases was a decline in professional fees incurred in connection with implementation of a new back office system.

Outside services expenses increased to $34.6 million, compared with $28.1 million in 2006. This increase was primarily due to expenses related to a new back-office system to support our capital markets business, which was implemented in the third quarter of 2007, and higher outside legal fees. In addition, we incurred higher trading system expenses related to increased volumes in our European business and expanded services.

Restructuring-Related Expense – During 2008, we implemented certain expense reduction measures as a means to better align our cost infrastructure with our revenues. This resulted in a pre-tax restructuring charge of $17.9 million, consisting of $12.5 million in severance costs resulting from a reduction of approximately 230 employees, $5.0 million related to leased office space and $0.4 million of other restructuring-related expenses.

Goodwill Impairment – During the fourth quarter of 2008, we completed our annual goodwill impairment testing, which resulted in a non-cash goodwill impairment charge of $130.5 million to our capital markets reporting unit. The charge primarily relates to the goodwill resulting from our 1998 acquisition by U.S. Bancorp, which was retained by us when we spun off as a separate public company on December 31, 2003.

Other Operating Expenses – Other operating expenses include insurance costs, license and registration fees, expenses related to our charitable giving program, amortization of intangible assets and litigation-related expenses, which consist of the amounts we reserve and/or pay out related to legal and regulatory matters. In 2008, other operating expenses increased to $14.8 million, compared with $11.0 million in 2007. This increase was primarily due to incremental costs associated with FAMCO and Goldbond, which we acquired in late 2007 as well as increased litigation-related expenses.

Other operating expenses increased to $11.0 million in 2007, compared with a benefit of $6.1 million in 2006. In the fourth quarter of 2006, we reduced a $21.3 million litigation reserve related to developments in a specific industry-wide litigation matter, which caused the significant increase in 2007 in other operating expenses, compared with 2006.

Income Taxes – In 2008, our provision for income taxes from continuing operations was a benefit of $40.1 million, an effective tax rate of 18.0 percent, compared with $5.8 million, an effective tax rate of 19.0 percent, for 2007, and compared with $10.2 million, an effective tax rate of 30.6 percent, for 2006. The decreased effective tax rate in 2008 was primarily attributable to the non-taxable portion of the goodwill impairment charge related to our capital markets business. The decreased effective tax rate in 2007 compared with 2006 was primarily attributable to an increase in the ratio of net municipal interest income, which is non-taxable, to total taxable income.

NET REVENUES FROM CONTINUING OPERATIONS (DETAIL)

FOR THE YEAR ENDED DECEMBER 31, *(Dollars in thousands)*	2008	2007 *(Restated)*	2006 *(Restated)*	*PERCENT INC/(DEC)* 2008 v 2007	2007 v 2006
Net revenues:					
Investment banking					
Financing					
Equities	**$ 40,845**	$ 141,981	$ 124,304	(71.2)%	14.2%
Debt	**63,125**	80,045	82,880	(21.1)	(3.4)
Advisory services	**68,523**	89,449	97,225	(23.4)	(8.0)
Total investment banking	**172,493**	311,475	304,409	(44.6)	2.3
Institutional sales and trading					
Equities	**129,867**	119,688	120,341	8.5	(0.5)
Fixed income	**6,295**	61,122	70,115	(89.7)	(12.8)
Total institutional sales and trading	**136,162**	180,810	190,456	(24.7)	(5.1)
Asset management	**16,969**	6,446	222	163.2	N/M
Other income	**773**	5,647	9,961	(86.3)	(43.3)
Total net revenues	**$ 326,397**	$ 504,378	$ 505,048	(35.3)%	(0.1)%

N/M — Not meaningful

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.

Industry-wide market conditions eroded during 2008, significantly reducing activity in equity financings, mergers and acquisitions and public finance. Given these challenging market conditions, investment banking revenues decreased to $172.5 million in 2008, compared with $311.5 million in 2007. In 2008, equity underwriting revenues decreased 71.2 percent to $40.8 million due to a decrease in the number of completed transactions. During 2008, we completed 42 equity financings, raising $6.5 billion in capital (excluding the $19.7 billion of capital raised from the VISA initial public offering, on which we were a co-lead manager) compared with 117 equity financings, raising $17.5 billion in capital, during 2007. We were the bookrunner on 11 of these transactions in 2008 compared with 28 in 2007. Debt financing revenues in 2008 decreased 21.1 percent to $63.1 million due to a decline in public finance revenues. During 2008 we completed 347 tax-exempt issues with a total par value of $7.3 billion compared with 420 tax-exempt issues with a total par value of $6.8 billion, during 2007. In 2008, advisory services revenues decreased 23.4 percent to $68.5 million due to a decline in revenues from mergers and acquisition activity, including a decrease in aggregate transaction enterprise values from $15.7 billion in 2007 to $11.6 billion in 2008. We expect continued market uncertainty to negatively impact our investment banking revenues in 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 sales and trading 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.

In 2008, institutional sales and trading revenues decreased 24.7 percent to $136.2 million, compared with $180.8 million in 2007. Equity institutional sales and trading revenues increased 8.5 percent to $129.9 million in 2008, compared with the prior year. Increased volumes and volatility benefited equity institutional sales and trading revenues during 2008, but we anticipate a decline in trading revenues in 2009 due to reduced commissions from lower asset valuations and fewer institutional market participants. Fixed income institutional sales and trading revenues decreased 89.7 percent to $6.3 million in 2008, compared with $61.1 million in 2007 due to severe market conditions throughout 2008. Municipal sales and trading, municipal proprietary trading, and taxable sales and trading revenues were strong and in aggregate doubled from the previous year. However, these gains were more than offset by losses within high yield and structured products and the TOB program. The losses associated with our TOB program are largely isolated to 2008. We have substantially reduced our overall position as we exit this program. For additional information related to our TOB program, refer to "Off-balance Sheet Arrangements" below.

In 2008, asset management fees increased to $17.0 million compared with $6.4 million in 2007 due primarily to a full year of activity in 2008 by FAMCO, which we acquired in September 2007. Asset management fees also include management fees from our private equity funds.

Other income/loss includes gains and losses from our investments in private equity and venture capital funds, other firm investments and income associated with the forfeiture of stock-based compensation. In addition, other income/loss included interest expense from our subordinated debt prior to its repayment in August 2006. In 2008, other income totaled $0.8 million, compared with $5.6 million in 2007. This decrease relates primarily to losses associated with our investments in private equity, venture funds and other firm investments.

Despite challenging market conditions in the last half of 2007, investment banking revenues increased to $311.5 million, compared with $304.4 million in 2006. Increased equity financing revenues more than offset lower advisory services revenues and slightly lower debt financing revenues. In 2007, equity underwriting revenues increased 14.2 percent to $142.0 million due to an increase in the number of completed transactions. During 2007, we completed 117 equity financings, raising $17.5 billion in capital for our clients, compared with 102 equity financings, raising $13.9 billion in capital, during 2006. Debt financing revenues in 2007 decreased 3.4 percent to $80.0 million. In 2007, advisory services revenues decreased 8.0 percent to $89.4 million due to a decline in domestic mergers and acquisition revenues. Lower average revenues per transaction in the U.S. more than offset the increase in merger and acquisitions revenues contributed by our international operations.

In 2007, institutional sales and trading revenues decreased 5.1 percent to $180.8 million, compared with $190.5 million in 2006. Equity institutional sales and trading revenues were flat at $119.7 million in 2007, compared with the prior year. Increased revenues from the acquisition of Goldbond and higher proprietary trading gains were offset by a decline in convertible revenues. Fixed income institutional sales and trading revenues decreased 12.8 percent to $61.1 million in 2007, compared with $70.1 million in 2006 due to lower revenues in taxable products and high-yield and structured products.

In 2007, asset management fees were $6.4 million due primarily to the business of FAMCO, which we acquired in September 2007. Asset management fees also include management fees from our private equity funds.

DISCONTINUED OPERATIONS

Discontinued operations include the operating results of our PCS business, the gain on the sale of the PCS branch network in 2006 and related restructuring costs. The sale of the PCS branch network to UBS closed on August 11, 2006.

Our PCS retail brokerage business provided financial advice and a wide range of financial products and services to individual investors through a network of approximately 90 branch offices. Revenues were generated primarily through the receipt of commissions earned on equity and fixed income transactions and for distribution of mutual funds and annuities, fees earned on fee-based client accounts and net interest from customers' margin loan balances.

In 2008, discontinued operations recorded net income of $0.5 million, which primarily related to a PCS legal settlement offset by changes in estimates on leased office space. We may incur discontinued operations expense or income in future periods related to changes in litigation reserve estimates for retained PCS litigation matters and for changes in estimates to occupancy and severance restructuring charges if the facts that support our estimates change. See Note 4 and Note 17 to our consolidated financial statements for further discussion of our discontinued operations and restructuring activities.

Recent Accounting Pronouncements

Recent accounting pronouncements are set forth in Note 3 to our consolidated financial statements included in our Annual Report to Shareholders, 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 to Shareholders. We believe that of our significant accounting policies, the following are our critical accounting policies.

VALUATION OF FINANCIAL INSTRUMENTS

Trading securities owned, trading securities owned and pledged as collateral, and trading securities sold, but not yet purchased, 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 trading securities owned, trading securities owned and pledged as collateral, and trading securities sold, but not yet purchased, are based on observable market prices, observable market parameters, or derived from broker or dealer prices. The availability of observable market prices and pricing parameters can vary from product to product. Where available, observable market prices and pricing or market parameters in a product may be used to derive a price without requiring significant judgment. In certain markets, observable market prices or market parameters are not available for all products, and fair value is determined using techniques appropriate for each particular product. These techniques involve some degree of judgment.

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 financial instruments are the cost, terms and liquidity of the investment, the financial condition and operating results of the issuer, the quoted market price of publicly traded securities with similar quality and yield, and other factors generally pertinent to the valuation of investments. In instances where a security is subject to transfer restrictions, the value of the security is based primarily on the quoted price of a similar security without restriction but may be reduced by an amount estimated to reflect such restrictions. 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.

Fair values for derivative contracts represent amounts estimated to be received from or paid to a third party in settlement of these instruments. These derivatives are valued using quoted market prices when available or pricing models based on the net present value of estimated future cash flows. Management deemed the net present value of estimated future cash flows model to be the best estimate of fair value as most of our derivative products are interest rate products. 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.

Financial instruments carried at contract amounts have short-term maturities (one year or less), are repriced frequently or bear market interest rates and, accordingly, those contracts are carried at amounts approximating 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.

SFAS 157 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 measurement) and the lowest priority to unobservable inputs 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 $46.6 million, or 7.6 percent of financial instruments measured at fair value. This balance primarily consists of auction rate securities where the market has ceased to function and asset-back securities, principally collateralized by aircraft that have experienced low volumes of executed transactions, such that unobservable inputs had to be utilized for the fair value measurements of these instruments. Our auction rate securities are valued at par based upon our expectations of issuer refunding plans. Asset-backed securities are valued using cash flow models that utilize unobservable inputs that include airplane lease rates, maintenance costs and airplane liquidation proceeds.

During 2008, we recorded net sales of $158.2 million of Level III assets. This reduction was primarily the result of auction-rate securities being restructured into something more market-acceptable increasing the salability of these securities. Our valuation adjustments (realized and unrealized) decreased Level III assets by $32.1 million due to a decline in valuations of asset backed securities and realized losses on our TOB residual interests. Additionally, there was $0.2 million of net transfers out of Level III assets during 2008.

At December 31, 2008 Level III liabilities included $0.4 million of private equity investments.

GOODWILL AND INTANGIBLE ASSETS

We record all assets and liabilities acquired in purchase acquisitions, including goodwill and other intangible assets, at fair value as required by Statement of Financial Accounting Standards No. 141, "Business Combinations." Determining the fair value of assets and liabilities acquired requires certain management estimates. In 2007, we recorded $34.1 million of goodwill and $18.0 million of identifiable intangible assets related to the acquisition of FAMCO. We recorded an additional $6.3 million of goodwill in 2008 related to FAMCO in accordance with performance conditions set forth in the purchase agreement. In 2007, we recorded $19.2 million of goodwill related to the acquisition of Goldbond. At December 31, 2008, we had goodwill of $160.6 million. Of this goodwill balance, $105.5 million is a result of the 1998 acquisition of our predecessor, Piper Jaffray Companies Inc., and its subsidiaries by U.S. Bancorp.

Under Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," 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. 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 two 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 value is 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 completed our annual goodwill impairment testing as of November 30, 2008, which resulted in a non-cash goodwill impairment charge of $130.5 million. The charge relates to our capital markets reporting unit and primarily pertains to goodwill created from the 1998 acquisition of our predecessor, Piper Jaffray Companies Inc., and its subsidiaries by U.S. Bancorp, which was retained by us when we spun-off from U.S. Bancorp on December 31, 2003. The factors used by us in estimating our capital markets reporting unit fair value included the following factors: our market capitalization, a discounted cash flow model, public market comparables and multiples of recent mergers and acquisitions. Our market capitalization was measured based on the average closing price for Piper Jaffray Companies common stock over the month of November 2008 and was adjusted to include an estimate for a control premium. Our discounted cash flow model was based on our five year plan and included an estimated terminal value based upon historical transaction valuations. Public market industry peers were valued based on revenues and tangible common equity. Recent mergers and acquisitions were not a significant factor in the 2008 goodwill evaluation. The impairment charge resulted from deteriorating economic and market conditions in 2008, which led to reduced valuations in the factors discussed above.

Further deterioration in economic or market conditions during future periods could result in additional impairment charges, which could materially adversely affect the results of operations in that period.

Our annual goodwill impairment testing resulted in no impairment associated with our asset management reporting unit, principally comprised of FAMCO. In addition, we tested the definite-lived intangible assets acquired as part of the FAMCO acquisition and concluded there was no impairment.

STOCK-BASED COMPENSATION

As part of our compensation to employees and directors, we use stock-based compensation, consisting of restricted stock and stock options. Prior to January 1, 2006, we elected to account for stock-based employee compensation on a prospective basis under the fair value method, as prescribed by Statement of Financial Accounting Standards No. 123, "Accounting and Disclosure of Stock-Based Compensation," and as amended by Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure." The fair value method required stock based compensation to be expensed in the consolidated statement of operations at their fair value, net of estimated forfeitures.

Effective January 1, 2006, we adopted the provisions of Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment," ("SFAS 123(R)"), using the modified prospective transition method. SFAS 123(R) requires all stock-based compensation to be expensed in the consolidated statement of operations at fair value over the service period of the award.

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. The majority of our restricted stock and option grants 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 required by SFAS 123(R). 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.

In 2008, we granted performance-based restricted stock awards. The restricted shares 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 common shares of Piper Jaffray Companies stock and/or fully vested stock options. 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.

In determining the estimated fair value of stock options, we use 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. The expected dividend yield assumption is derived from the assumed dividend payout over the expected life of the option. The expected volatility assumption for grants subsequent to December 31, 2006 is derived from a combination of our historical data and industry comparisons, as we have limited information on which to base our volatility estimates because we have only been a public company since the beginning of 2004. The expected volatility assumption for grants prior to December 31, 2006 were based solely on industry comparisons. The expected life of options assumption is derived from the average of the following two factors: industry comparisons and the guidance provided by the SEC in Staff Accounting Bulletin No. 110 ("SAB 110"). SAB 110 allows the use of an "acceptable" methodology under which we can take the midpoint of the vesting date and the full contractual term. We believe our approach for calculating an expected life to be an appropriate method in light of the limited historical data regarding employee exercise behavior or employee post-termination behavior. Additional information regarding assumptions used in the Black-Scholes pricing model can be found in Note 21 to our consolidated financial statements.

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 Statement of Financial Accounting Standards No. 5, "Accounting for 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.

As part of the asset purchase agreement for the sale of our PCS branch network to UBS that closed in August

2006, we have retained liabilities arising from regulatory matters and certain PCS litigation arising prior to the sale. Adjustments to litigation reserves for matters pertaining to the PCS business are included within discontinued operations on the consolidated statements of operations.

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 and the assumption by UBS of certain liabilities of the PCS business and our indemnification obligations to UBS, 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 and indemnification available to us, 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 and for tax loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income taxes are provided for temporary differences in reporting certain items, principally, amortization of share-based compensation. The realization of deferred tax assets is assessed and a valuation allowance is 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.

We establish reserves for uncertain income tax positions in accordance with FIN 48 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 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, proceeds from securities sold under agreements to repurchase and bank lines of credit. 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. Turmoil in the credit markets late in the third quarter of 2008 disrupted traditional sources of liquidity for variable rate demand notes. This disruption initially resulted in us purchasing, for our own account, additional variable rate demand notes that we remarket thereby increasing our funding needs. Ultimately, we began putting these securities back, and instructing our clients to put them back, to the financial institutions that provide liquidity guarantees for these securities. During the fourth quarter of 2008 credit markets normalized for variable rate demand notes and we have experienced trading activity and inventory levels consistent with historical trends.

The credit market turmoil also impacted our tender option bond program in the third quarter of 2008 and as a result we decided to discontinue the program as we believe that the TOB trusts will not have long-term lives as we originally expected. This decision was based on the trusts' liquidity provider deciding to exit this business and discontinue providing liquidity and the belief that the variable rate municipal trust certificates that support our program will no longer be a consistent source of funding. A reduction in the variable rate municipal trust certificates without a corresponding liquidation of the underlying bonds results in the need for additional funding that would require financing through our overnight bank lines or repurchase agreements. For further discussion of our liquidity, market and credit risk related to variable rate certificates issued from trusts as part of our tender option bond program, refer to "Off-Balance Sheet Arrangements" below. For further discussion of our liquidity, market and credit risks related to variable rate demand notes, refer to "Enterprise Risk Management" below.

A significant component of our employees' compensation is paid in an annual discretionary bonus. The timing of these bonus payments, which generally are paid 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.

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. The share repurchase program will help us manage our equity capital relative to the growth of our business and offset, in part, the dilutive effect of employee equity-based compensation. The program expires on June 30, 2010. In 2008, we repurchased $15 million of our shares of common stock under this authorization which equaled 444,225 shares at an average price of $33.75.

We may add capital in 2009 to facilitate certain of our growth initiatives, depending upon availability and pricing.

CASH FLOWS

Cash and cash equivalents decreased $100.5 million to $49.8 million at December 31, 2008 from 2007. Operating activities provided cash of $62.1 million due to cash received from a reduction in net financial instruments and other inventory positions owned as we reduced our inventory positions during 2008 to reduce our market exposure. Partially offsetting this fluctuation was our net operating loss, the majority of which resulted from a non-cash goodwill impairment charge. Investing activities used $8.7 million of cash for the payment to FAMCO in accordance with performance conditions set forth in the purchase agreement and the purchase of fixed assets. Cash of $153.5 million was used in financing activities due in part to a $139.5 million decrease in secured financing activities and $23.8 million utilized to repurchase common stock.

Cash and cash equivalents increased $110.4 million to $150.3 million at December 31, 2007 from 2006. We increased our cash position at the end of 2007 to facilitate liquidity in the event of any credit tightness in the markets at or near year-end. Operating activities provided cash of $135.4 million due to cash received from earnings and a reduction in operating assets. Investing activities used $95.6 million of cash for the acquisitions of FAMCO and Goldbond during 2007 and the purchase of fixed assets. Cash of $70.8 million was provided through financing activities due to a $153.9 million increase in secured financing activities offset in part by $87.5 million utilized to repurchase common stock.

Cash and cash equivalents decreased $21.0 million to $39.9 million at December 31, 2006 from 2005. Operating activities used cash of $72.4 million, as cash paid out for operating assets and liabilities exceeded cash received from earnings. Cash of $707.4 million was provided by investing activities due to the sale of the PCS branch network to UBS. Cash of $657.2 million was used in financing activities. We used the proceeds from the sale of PCS to repay $180 million in subordinated debt and repurchase approximately 1.6 million shares of common stock through an accelerated share repurchase program in the amount of $100 million. In addition, we paid down other short-term borrowings used to finance our continuing operations.

FUNDING SOURCES

Short-term funding is obtained through the use of repurchase agreements and bank loans and are typically collateralized by the firm's securities inventory. Short-term funding is generally obtained at rates based upon the federal funds rate. We have available both committed and uncommitted short-term financing with a diverse group of banks.

Uncommitted Lines – Our uncommitted secured lines total $285 million with four banks. These secured lines 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. We use these credit facilities in the ordinary course of business to fund a portion of our daily operations, and the amount borrowed under these facilities varies daily based on our funding needs. These uncommitted lines are discretionary and are not a commitment by the bank to provide an advance under the line. For example, these lines are subject to approval by the respective bank each time an advance is requested and advances may be denied. We continue to manage our relationships with all the banks that provide these uncommitted facilities in order to have appropriate levels of funding for our business.

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. However, of the $250 million in financing available under this facility, $125 million may only be drawn with specific municipal securities as collateral. The facility includes a covenant that requires us to maintain a minimum net capital of $180 million, and the unpaid principal amount of all advances under the facility will be due on September 25, 2009.

Average net repurchase agreements (excluding repurchase agreements used to facilitate economic hedges) of $171 million and $122 million and short-term bank loans of $68 million and $10 million in 2008 and 2007, respectively, were primarily used to finance inventory as well as customer and trade-related receivables. On December 31, 2008, we had $9 million outstanding in short-term bank financing.

On December 31, 2007, U.S. Bank N.A. agreed to provide up to $50 million in temporary subordinated debt upon approval by the Financial Industry Regulatory Authority ("FINRA"). This facility was not used during 2008, expired on December 26, 2008 and was not renewed.

On February 19, 2008, we also entered into a $600 million revolving credit facility with U.S. Bank N.A. pursuant to which we were permitted to request advances to fund certain short-term municipal securities. Interest was payable monthly, and the unpaid principal amount of all advances was due August 19, 2008. All advances were repaid as of August 19, 2008. We determined we no longer needed this credit facility and it was not renewed.

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.

CONTRACTUAL OBLIGATIONS

In the normal course of business, we enter into various contractual obligations that may require future cash payments. The following table summarizes the contractual amounts at December 31, 2008 in total and by remaining maturity. Excluded from the table are a number of obligations recorded in the consolidated statements of financial condition that generally are short-term in nature, including secured financing transactions, trading liabilities, short-term borrowings and other payables and accrued liabilities.

(Dollars in millions)	2009	2010 through 2011	2012 through 2013	2014 and thereafter	Total
Operating lease obligations	17.4	28.1	21.8	10.7	78.0
Purchase commitments	13.4	14.8	11.8	0.1	40.1
Fund commitments*(a)*	–	–	–	–	3.7
FAMCO contingent consideration*(b)*	–	–	–	–	–

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

(b) The acquisition of FAMCO included the potential for additional cash consideration to be paid in the form of three annual payments contingent upon revenue exceeding certain revenue run-rate thresholds. The amount of the three annual payments (assuming the revenue run-rate threshold has been met) will be equal to a percentage of earnings before income taxes, depreciation and amortization for the previous year. We made a payment of additional cash consideration of $6.3 million in 2008. The percentage in 2009 and 2010 is 110%. We are unable to make reasonably reliable estimates for the amount of these annual payments, if any.

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

The amounts presented in the table above may not necessarily reflect our actual future cash funding requirements, because the actual timing of the future payments made may vary from the stated contractual obligation. In addition, due to the uncertainty with respect to the timing of future cash flows associated with our unrecognized tax benefits as of December 31, 2008, we are unable to make reasonably reliable estimates of the period of cash settlement with the respective taxing authority. Therefore, $10.2 million of unrecognized tax benefits have been excluded from the contractual table above. See Note 24 to the consolidated financial statements for a discussion of income taxes.

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 December 31, 2008, our net capital under the SEC’s Uniform Net Capital Rule was $210.5 million, and exceeded the minimum net capital required under the SEC rule by $209.5 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 including certain reimbursement guarantees meeting the FIN No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others” (“FIN 45”), definition of a guarantee that may require future payments. The following table summarizes our off-balance-sheet arrangements at December 31, 2008 and 2007 as follows:

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EXPIRATION PER PERIOD AT DECEMBER 31, (Dollars in thousands)	2009	2010	2011-2012	2013-2014	Later	Total Contractual Amount December 31, 2008	2007
Matched-book derivative contracts(1)(2)	$ 40,295	$ –	$ –	$ 75,430	$ 6,860,364	$ 6,976,089	$ 6,967,869
Derivative contracts excluding matched-book derivatives(2)	–	–	15,000	32,070	213,485	260,555	562,706
Loan commitments	–	–	–	–	–	–	–
Private equity and other principal investments	–	–	–	–	–	3,694	4,900

(1) Consists of interest rate swaps. We have minimal market risk related to these matched-book derivative contracts, however, we do have counterparty risk with one major financial institution, which is mitigated by collateral deposits. In addition, we have a limited number of counterparties (contractual amount of $254.4 million at December 31, 2008) 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. As of December 31, 2008, we had $42.4 million of credit exposure with these counterparties, including $20.9 million of credit exposure with one counterparty.

(2) We believe the fair value of these derivative contracts is a more relevant measure of the obligations because we believe the notional or contract amount overstates the expected payout. At December 31, 2008 and 2007, the net fair *value of these derivative contracts approximated $21.8 million and $18.4 million, respectively.*

DERIVATIVES

Neither derivatives' notional amounts nor underlying instrument values are reflected as assets or liabilities in our consolidated statements of financial condition. Rather, the market, or fair value, of the derivative transactions are reported in the consolidated statements of financial condition as assets or liabilities in trading securities owned and trading securities sold, but not yet purchased, as applicable. Derivatives are presented on a net-by-counterparty basis when a legal right of offset exists, and on a net-by-cross product basis when applicable provisions are stated in a master netting agreement.

We enter into derivative contracts in a principal capacity as a dealer to satisfy the financial needs of clients. We also use derivative products to hedge the interest rate and market value risks associated with our security positions. Our interest rate hedging strategies may not work in all market environments and as a result may not be effective in mitigating interest rate risk. For a complete discussion of our activities related to derivative products, see Note 5, "Financial Instruments and Other Inventory Positions Owned and Financial Instruments and Other Inventory Positions Sold, but Not Yet Purchased," in the notes to our consolidated financial statements.

SPECIAL PURPOSE ENTITIES

We enter into arrangements with various special-purpose entities ("SPEs"). SPEs may be corporations, trusts or partnerships that are established for a limited purpose. There are two types of SPEs – qualified SPEs ("QSPEs") and variable interest entities ("VIEs"). A QSPE generally can be described as an entity whose permitted activities are limited to passively holding financial assets and distributing cash flows to investors based on pre-set terms. Our involvement with QSPEs relates to securitization transactions related to our tender option bond program in which highly rated fixed rate municipal bonds are sold to a SPE that qualifies as a QSPE under Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities a Replacement of FASB Statement No. 125," ("SFAS 140"). In accordance with SFAS 140 and FIN 46(R), we do not consolidate QSPEs. We recognize the retained interests we hold in the QSPEs at fair value. We derecognize financial assets transferred to QSPEs, provided we have surrendered control over the assets.

The sale of municipal bonds into an SPE trust as part of our TOB program was funded by the sale of variable rate certificates to institutional customers seeking variable rate tax-free investment products. These variable rate certificates reprice weekly. We have contracted with a major third-party financial institution who acts as the liquidity provider for our tender option bond trusts and we have agreed to reimburse the liquidity provider for any losses associated with providing liquidity to the trusts. This liquidity provider has the ability to terminate its agreement and in the third quarter of 2008 the liquidity provider to all of our trusts notified us they will be exiting this line of business in 2009.

In the third quarter of 2008, we made the determination that 23 securitization vehicles ("Securitized Trusts") formerly meeting the definition of QSPE's no longer qualified for off-balance sheet accounting treatment, because we believed it was probable that we would have material involvement with the Securitized Trusts under the terms of our reimbursement obligation to the liquidity provider for the Securitized Trusts. Our obligation under the reimbursement agreement became probable due to severe dislocation in the municipal securities market in the third quarter of 2008. The severe turmoil in the broader debt financial markets created an imbalance in the supply and demand for municipal securities, which resulted in TOB values declining to a value that was less than the outstanding trust certificates, making it probable that we would be obligated to reimburse the liquidity provider for losses under the terms of our reimbursement agreement. We were not able to replace the loss of our liquidity provider (who is exiting the business) at economically viable pricing and made the determination that the variable rate trust certificates will not provide a consistent source of funding for the trusts. We liquidated 19 Securitized Trusts in the fourth quarter of 2008 and expect to liquidate an additional 7 Securitized Trusts in early 2009. We have no plans to continue with our TOB program after the remaining trusts are liquidated.

SPEs that do not meet the QSPE criteria because their permitted activities are not limited sufficiently or control remains with one of the owners are referred to as VIEs. Under FIN 46(R), we consolidate a VIE if we are the primary beneficiary of the entity. The primary beneficiary is the party that either (i) absorbs a majority of the VIEs expected losses; (ii) receives a majority of the VIEs expected residual returns; or (iii) both. At December 31, 2008 we are party to a total of seven TOB securitizations whereby control remained with one of the owners and we are the primary beneficiary of the VIE. Accordingly, we have recorded an asset for the underlying bonds of $84.6 million (par value $113.6 million) and a liability for the certificates sold by the trusts for $88.0 million as of December 31, 2008. See Note 7, "Securitizations," in the notes to our consolidated financial statements for a complete discussion of our securitization activities.

In addition, we have investments in various entities, typically partnerships or limited liability companies, established for the purpose of investing in private or public equity securities and various partnership entities. 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 partnerships, see Note 8, "Variable Interest Entities," to our consolidated financial statements included in our Annual Report to Shareholders on Form 10-K for the year ended December 31, 2008.

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 December 31, 2008.

PRIVATE EQUITY AND OTHER PRINCIPAL INVESTMENTS

We have committed capital to certain non-consolidated private-equity funds. These commitments have no specified call dates.

OTHER OFF-BALANCE SHEET EXPOSURE

Our other types of off-balance-sheet arrangements include contractual commitments and guarantees. For a discussion of our activities related to these off-balance sheet arrangements, see Note 16, "Contingencies, Commitments and Guarantees," to our consolidated financial statements.

Enterprise Risk Management

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

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

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

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 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, to hedge residual cash flows from our tender option bond program, and to hedge rate lock agreements and forward bond purchase agreements we may enter into with our public finance customers. 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 with 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

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.

In the first quarter of 2008, we changed the underlying methodology used to calculate our VaR from a historical simulation model to a Monte Carlo simulation model after implementing a new market risk management system. Historical simulation assumes that returns in the future will have the same distribution they had in the past. Monte Carlo simulation, in comparison, generates scenarios of random market moves and revalues the portfolio given each of those market moves. We believe that a Monte Carlo simulation is an enhanced VaR methodology. In addition, the Monte Carlo simulation model can better account for options and other instruments that contain optionality. The new system also provides us with better modeling of the correlations among all of our asset classes. All prior year data has been restated to reflect the change in methodology.

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,

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different assumptions and approximations could produce materially different VaR estimates.

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. In addition, different VaR methodologies and distribution assumptions could produce materially different VaR numbers. Changes in VaR between reporting periods are generally due to changes in levels of risk exposure, volatilities and/or correlations among asset classes.

We report an empirical VaR based on net realized trading revenue volatility. Empirical VaR presents an inclusive measure of our historical risk exposure, as it incorporates virtually all trading activities and types of risk including market, credit, liquidity and operational risk. The table below presents VaR using the past 250 days of net trading revenue. Consistent with industry practice, when calculating VaR we use a 95 percent confidence level and a one-day time horizon for calculating both empirical and simulated VaR. 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.

The following table quantifies the empirical VaR for each component of market risk at the dates indicated:

At December 31,

(Dollars in thousands)	**2008**	2007
Interest Rate Risk	**$ 2,494**	$ 2,085
Equity Price Risk	**334**	448
Diversification Effect(1)	**(416)**	(736)
Total Value-at-Risk	**$ 2,412**	$ 1,797

(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 years ended December 31, 2008.

FOR THE YEAR ENDED DECEMBER 31, 2008

(Dollars in thousands)	High	Low	Average
Interest Rate Risk	$ 4,357	$ 554	$ 1,956
Equity Price Risk	1,836	78	489
Diversification Effect*(1)*			(602)
Total Value-at-Risk	3,704	584	1,843

(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.

Supplementary measures employed by Piper Jaffray to monitor and manage market risk exposure include 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.

The aggregate VaR as of December 31, 2008 increased compared to levels reported as of December 31, 2007 due to increased market volatility and lower correlations, as well as the increase in municipal exposure related to the TOB program that was brought on-balance sheet at the end of the third quarter of 2008 and managed throughout the fourth quarter of 2008. We continue to manage the TOB program assets as part of our overall risk management metrics and limits.

In early 2009 our aggregate VaR is relatively lower with respect to the levels reported as of December 31, 2008.

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 have a relatively low leverage ratio of 1.7 as of December 31, 2008 and net capital of $210.5 million in our U.S. broker dealer as of December 31, 2008. 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 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 added a committed bank line to our funding sources during the third quarter of 2008 to further manage liquidity risk.

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.

As discussed within "Liquidity, Funding and Capital Resources" above, the turmoil in the credit markets during 2008 disrupted traditional sources of liquidity for variable rate demand notes, auction rate municipal securities and variable rate municipal trust certificates, which support our tender option bond program.

We currently act as the remarketing agent for approximately $7.5 billion of variable rate demand notes, which all 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. We experienced this supply and demand imbalance during the third quarter of 2008 and began tendering these securities back to the financial institutions that provide liquidity guarantees for these securities. During the fourth quarter of 2008, credit markets normalized for variable rate demand notes and we have experienced trading activity and inventory levels consistent with historical trends.

We currently act as the broker-dealer for approximately $231 million of auction rate municipal securities, all of which are insured by monolines. Demand by investors for auction rate securities backed by certain monoline insurers declined significantly in the first quarter of 2008 and we increased our inventory positions in early 2008 in an effort to facilitate liquidity. The market for auction rate securities has ceased to function and as a result we have been working with the underlying municipal issuers to restructure their outstanding auction rate debt into something more market-acceptable. As of February 20, 2009, our inventory position was reduced to $18 million in these securities.

As of December 31, 2008, our tender option bond program had securitized $113.6 million in par value ($84.6 million in market value) of municipal bonds in 7 trusts. Each municipal bond is sold into a trust that is funded by the sale of variable rate municipal trust certificates to institutional customers seeking variable rate tax-free investment products. We act as the remarketing agent for all of these trusts. The credit market turmoil impacted our TOB program in the third quarter of 2008 and as a result we decided to discontinue the program as we believe that the TOB trusts will not have long-term lives as we originally expected. This decision was based on the trusts' liquidity provider deciding to discontinue providing liquidity and the belief that the variable rate municipal trust certificates that support our program will no longer be a consistent source of funding. A reduction in the variable rate municipal trust certificates without a corresponding liquidation of the underlying bonds, results in additional funding needs that need to be financed through our overnight bank lines or repurchase agreements. In certain cases we anticipate retaining the underlying bonds for a period of time. Discontinuing the TOB program meets two key objectives during this time of market turmoil. First, it removes a potential funding risk to the existing TOB program, and second it helps manage our overall municipal exposure prudently relative to the overall risk framework that we maintain for the firm. See "Off-Balance Sheet Arrangements – Special Purpose Entities" above, for further discussion of our TOB program.

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.

We maintain counterparty credit exposure with six non-publicly rated municipalities totaling $42.4 million at December 31, 2008. This counterparty credit exposure is part of our matched-book derivative program, consisting primarily of interest rate swaps. One derivative counterparty represents 49 percent or $20.9 million in credit exposure. Credit exposure associated with our derivative counterparties is driven by uncollateralized market movements in the fair value of the contracts and is monitored regularly by our market and credit 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. In the fourth quarter of 2008, we elected to exit the Hong Kong retail business, which will reduce our margin lending exposure in 2009.

Credit exposure associated with our bridge-loan financings is monitored regularly by our market and credit risk committee. Bridge-loan financings that have been funded are recorded in other assets at amortized cost on the consolidated statement of financial condition. At December 31, 2008 we had two bridge-loan financings funded totaling \$19.8 million. One bridge loan totaling \$11.9 million is in default as of December 31, 2008; however, we currently believe that the value of our secured collateral exceeds \$11.9 million and accordingly we have not recorded an impairment loss on this loan as of December 31, 2008.

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. In the third quarter of 2008 a major investment bank, Lehman Brothers Holdings Inc. ("Lehman"), filed for bankruptcy protection exposing us to \$3.0 million in unsecured receivables for which we are fully reserved.

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.

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 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.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements and are subject to significant risks and uncertainties that are difficult to predict. These forward-looking statements cover, among other things, statements made about general economic and market conditions, our current deal pipelines, the environment and prospects for capital markets transactions and activity, management expectations, anticipated financial results (including expectations regarding revenue and expense levels, the compensation ratio, and break-even performance), liquidity and capital resources, expectations regarding inventory positions, changes in our accounting policy related to stock-based compensation, our financial restatement, or other similar matters. These statements involve inherent risks and uncertainties, both known and unknown, and important factors could cause actual results to differ materially from those anticipated or discussed in the forward-looking statements including (1) market and economic conditions or developments may be unfavorable, including in specific sectors in which we operate, and these conditions or developments (including market fluctuations or volatility) may adversely affect the environment for capital markets transactions and activity and our business, revenue levels and profitability, (2) the volume of anticipated investment banking transactions as reflected in our deal pipelines (and the net revenues we earn from such transactions) may differ from expected results if any transactions are delayed or not completed at all or if the terms of any transactions are modified, (3) we may not be able to compete successfully with other companies in the financial services industry, (4) our ability to manage expenses to attain break-even performance at reduced revenue levels may be limited by the fixed nature of certain expenses as well as the impact from unanticipated expenses during the year, (5) an inability to access capital readily or on terms favorable to us could impair our ability to fund operations and could jeopardize our financial condition, (6) an inability to readily divest or transfer inventory positions may result in future inventory levels that differ from management's expectations and potential financial losses from a decline in value of illiquid positions, (7) the use of estimates and valuations in the application of our accounting policies, particularly our critical accounting policies, require significant estimation and judgment by management, (8) the results of the audit of our restated financial information could require adjustments to such information, and (9) the other factors described under "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2008, as well as those factors discussed under "External Factors Impacting Our Business" included in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2008, and updated in our subsequent reports filed with the SEC (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 readers are cautioned not to place undue reliance on them. We undertake no obligation to update them in light of new information or future events.

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2008. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on its assessment and those criteria, management has concluded that we maintained effective internal control over financial reporting as of December 31, 2008.

Ernst & Young LLP, the independent registered public accounting firm that audited the consolidated financial statements of Piper Jaffray Companies included in this Annual Report on Form 10-K, has audited the effectiveness of internal control over financial reporting as of December 31, 2008. Their report, which expresses an unqualified opinion on the effectiveness of Piper Jaffray Companies' internal control over financial reporting as of December 31, 2008, is included herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Piper Jaffray Companies

We have audited Piper Jaffray Companies' (the Company) internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Piper Jaffray Companies' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, Piper Jaffray Companies maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2008 consolidated financial statements of Piper Jaffray Companies and our report dated February 27, 2009, expressed an unqualified opinion thereon.

Ernst + Young LLP

Minneapolis, Minnesota
February 27, 2009

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Piper Jaffray Companies

We have audited the accompanying consolidated statements of financial condition of Piper Jaffray Companies (the Company) as of December 31, 2008, 2007 and 2006 and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Piper Jaffray Companies at December 31, 2008, 2007 and 2006 and the consolidated results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

The consolidated financial statements as of December 31, 2007 and 2006 and for the years then ended were restated as discussed in Note 1.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Piper Jaffray Companies' internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organization of the Treadway Commission and our report, dated February 27, 2009, expressed an unqualified opinion thereon.

Ernst + Young LLP

Minneapolis, Minnesota
February 27, 2009

Piper Jaffray Companies

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Amounts in thousands, except share data)	**December 31, 2008**	December 31, 2007	December 31, 2006
		(Restated)	*(Restated)*
Assets			
Cash and cash equivalents	**$ 49,848**	$ 150,348	$ 39,903
Cash and cash equivalents segregated for regulatory purposes	**20,005**	–	25,000
Receivables:			
Customers	**39,228**	124,329	51,441
Brokers, dealers and clearing organizations	**122,120**	87,668	312,874
Deposits with clearing organizations	**28,471**	30,649	30,223
Securities purchased under agreements to resell	**65,237**	52,931	139,927
Securitized municipal tender option bonds	**84,586**	49,526	51,184
Financial instruments and other inventory positions owned	**380,812**	500,809	725,500
Financial instruments and other inventory positions owned and pledged as collateral	**112,023**	242,214	89,842
Total financial instruments and other inventory positions owned	**492,835**	743,023	815,342
Fixed assets (net of accumulated depreciation and amortization of $59,485, $55,508 and $48,603, respectively)	**20,034**	27,208	25,289
Goodwill	**160,582**	284,804	231,567
Intangible assets (net of accumulated amortization of $8,230, $5,609 and $3,333, respectively)	**14,523**	17,144	1,467
Other receivables	**36,951**	38,219	39,347
Other assets	**185,738**	154,137	113,088
Total assets	**$ 1,320,158**	$ 1,759,986	$ 1,876,652
Liabilities and Shareholders' Equity			
Short-term bank financing	**$ 9,000**	$ –	$ –
Payables:			
Customers	**34,188**	91,272	83,899
Checks and drafts	**4,397**	7,444	13,828
Brokers, dealers and clearing organizations	**10,049**	23,675	210,955
Securities sold under agreements to repurchase	**106,372**	247,202	91,293
Tender option bond trust certificates	**87,982**	48,519	50,065
Financial instruments and other inventory positions sold, but not yet purchased	**143,213**	176,191	217,584
Accrued compensation	**98,150**	187,180	208,734
Other liabilities and accrued expenses	**78,828**	83,356	95,438
Total liabilities	**572,179**	864,839	971,796
Shareholders' equity:			
Common stock, $0.01 par value: Shares authorized: 100,000,000 at December 31, 2008, 2007 and 2006; Shares issued: 19,498,488 at December 31, 2008; 19,494,488 at December 31, 2007 and 19,487,319 at December 31, 2006 Shares outstanding: 15,684,433 at December 31, 2008; 15,662,835 at December 31, 2007 and 16,984,474 at December 31, 2006	**195**	195	195
Additional paid-in capital	**808,358**	780,394	744,173
Retained earnings	**124,824**	307,799	285,856
Less common stock held in treasury, at cost: 3,814,055 shares at December 31, 2008; 3,831,653 shares at December 31, 2007 and 2,502,845 shares at December 31, 2006	**(183,935)**	(194,461)	(126,026)
Other comprehensive income/(loss)	**(1,463)**	1,220	658
Total shareholders' equity	**747,979**	895,147	904,856
Total liabilities and shareholders' equity	**$ 1,320,158**	$ 1,759,986	$ 1,876,652

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF OPERATIONS

YEAR ENDED DECEMBER 31, (Amounts in thousands, except per share data)	2008	2007 (Restated)	2006 (Restated)
Revenues:			
Investment banking	**$ 159,747**	$ 302,428	$ 298,309
Institutional brokerage	**117,201**	151,464	160,502
Interest	**48,496**	60,873	64,110
Asset management	**16,969**	6,446	222
Other income	**2,639**	6,856	14,208
Total revenues	**345,052**	528,067	537,351
Interest expense	**18,655**	23,689	32,303
Net revenues	**326,397**	504,378	505,048
Non-interest expenses:			
Compensation and benefits	**249,438**	329,811	357,904
Occupancy and equipment	**33,034**	32,482	30,660
Communications	**25,098**	24,772	23,189
Floor brokerage and clearance	**12,787**	14,701	13,292
Marketing and business development	**25,249**	26,619	24,664
Outside services	**41,212**	34,594	28,053
Restructuring-related expenses	**17,865**	–	–
Goodwill impairment	**130,500**	–	–
Other operating expenses	**14,821**	10,970	(6,062)
Total non-interest expenses	**550,004**	473,949	471,700
Income/(loss) from continuing operations before income tax expense/(benefit)	**(223,607)**	30,429	33,348
Income tax expense/(benefit)	**(40,133)**	5,790	10,210
Net income/(loss) from continuing operations	**(183,474)**	24,639	23,138
Discontinued operations:			
Income/(loss) from discontinued operations, net of tax	**499**	(2,696)	172,287
Net income/(loss)	**$ (182,975)**	$ 21,943	$ 195,425
Earnings per basic common share			
Income/(loss) from continuing operations	**$ (11.59)**	$ 1.50	$ 1.29
Income/(loss) from discontinued operations	**0.03**	(0.16)	9.57
Earnings per basic common share	**$ (11.55)**	$ 1.33	$ 10.86
Earnings per diluted common share			
Income/(loss) from continuing operations	**$ (11.59)**	$ 1.36	$ 1.19
Income/(loss) from discontinued operations	**0.03**	(0.15)	8.88
Earnings per diluted common share	**$ (11.55)** *(1)*	$ 1.21	$ 10.07
Weighted average number of common shares outstanding			
Basic	**15,837**	16,474	18,002
Diluted	**18,198**	18,117	19,399

(1) In accordance with SFAS 128, earnings per diluted common share is calculated using the basic weighted average number of common shares outstanding in periods a loss is incurred.

See Notes to Consolidated Financial Statements

Piper Jaffray Companies

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Amounts in thousands, except share amounts)	Common Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Other Comprehensive Income/(Loss)	Total Shareholders' Equity
Balance at December 31, 2005	18,365,177	$ 195	$ 704,005	$ 90,431	$ (35,422)	$ (4,382)	$ 754,827
Net income	–	–	–	195,425	–	–	195,425
Amortization/issuance of restricted stock	–	–	38,138	–	–	–	38,138
Amortization/issuance of stock options	–	–	2,436	–	–	–	2,436
Adjustment to unrecognized pension cost, net of tax	–	–	–	–	–	2,988	2,988
Foreign currency translation adjustment	–	–	–	–	–	2,052	2,052
Repurchase of common stock	(1,648,527)	–	–	–	(100,000)	–	(100,000)
Reissuance of treasury shares	267,824	–	(406)	–	9,396	–	8,990
Balance at December 31, 2006 *(Restated)*	16,984,474	$ 195	$ 744,173	$ 285,856	$ (126,026)	$ 658	$ 904,856
Net income	–	–	–	21,943	–	–	21,943
Amortization/issuance of restricted stock	–	–	47,314	–	–	–	47,314
Amortization/issuance of stock options	–	–	2,498	–	–	–	2,498
Adjustment to unrecognized pension cost, net of tax	–	–	–	–	–	(206)	(206)
Foreign currency translation adjustment	–	–	–	–	–	768	768
Repurchase of common stock	(1,590,477)	–	–	–	(79,971)	–	(79,971)
Reissuance of treasury shares	261,669	–	(14,056)	–	11,536	–	(2,520)
Shares reserved to meet deferred compensation obligations	7,169	–	465	–	–	–	465
Balance at December 31, 2007 *(Restated)*	15,662,835	$ 195	$ 780,394	$ 307,799	$ (194,461)	$ 1,220	$ 895,147
Net loss	–	–	–	(182,975)	–	–	(182,975)
Amortization/issuance of restricted stock	–	–	55,702	–	–	–	55,702
Amortization/issuance of stock options	–	–	1,832	–	–	–	1,832
Adjustment to unrecognized pension cost, net of tax	–	–	–	–	–	220	220
Foreign currency translation adjustment	–	–	–	–	–	(2,903)	(2,903)
Repurchase of common stock	(444,225)	–	–	–	(14,990)	–	(14,990)
Reissuance of treasury shares	461,823	–	(29,833)	–	25,516	–	(4,317)
Shares reserved to meet deferred compensation obligations	4,000	–	263	–	–	–	263
Balance at December 31, 2008	15,684,433	$ 195	$ 808,358	$ 124,824	$ (183,935)	$ (1,463)	$ 747,979

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEAR ENDED DECEMBER 31, (Dollars in thousands)	2008	2007 (Restated)	2006 (Restated)
Operating Activities:			
Net income/(loss)	**$ (182,975)**	$ 21,943	195,425
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:			
Depreciation and amortization of fixed assets	**8,952**	9,085	12,644
Gain on sale of PCS branch network	**–**	–	(381,030)
Deferred income taxes	**(5,824)**	(14,728)	(20,276)
Loss/(Gain) on disposal of fixed assets	**–**	292	12,392
Stock-based compensation	**21,331**	59,700	84,038
Amortization of intangible assets	**2,621**	2,276	1,600
Goodwill impairment	**130,500**	–	–
Decrease/(increase) in operating assets:			
Cash and cash equivalents segregated for regulatory purposes	**(20,005)**	25,000	(25,000)
Receivables:			
Customers	**87,231**	(42,747)	499
Brokers, dealers and clearing organizations	**(34,800)**	225,311	(13,679)
Deposits with clearing organizations	**2,178**	(327)	34,156
Securities purchased under agreements to resell	**(12,306)**	86,996	82,917
Securitized municipal tender option bonds	**(35,060)**	1,658	(6,091)
Net financial instruments and other inventory positions owned	**216,670**	31,152	(221,250)
Other receivables	**529**	14,439	(14,721)
Other assets	**(26,895)**	(21,210)	(25,357)
Increase/(decrease) in operating liabilities:			
Payables:			
Customers	**(57,171)**	(17,746)	10,093
Checks and drafts	**(3,047)**	(6,405)	(39,476)
Brokers, dealers and clearing organizations	**(17,396)**	(187,745)	189,378
Securities sold under agreements to repurchase	**(1,372)**	1,983	(10,703)
Tender option bond trust certificates	**39,463**	(1,546)	5,130
Accrued compensation	**(46,959)**	(33,155)	5,710
Other liabilities and accrued expenses	**(3,547)**	(18,849)	2,355
Assets held for sale	**–**	–	75,021
Liabilities held for sale	**–**	–	(26,182)
Net cash provided by/(used in) operating activities	**62,118**	135,377	(72,407)
Investing Activities:			
Sale of PCS branch network	**–**	–	715,684
Business acquisition, net of cash acquired	**(6,278)**	(85,889)	–
Purchases of fixed assets, net	**(2,390)**	(9,669)	(8,314)
Net cash provided by/(used in) investing activities	**(8,668)**	(95,558)	707,370
Financing Activities:			
Increase/(decrease) in securities sold under agreements to repurchase	**(139,458)**	153,926	(234,676)
Increase/(decrease) in short-term bank financing	**9,000**	–	(143,790)
Repayment of subordinated debt	**–**	–	(180,000)
Repurchase of common stock	**(23,834)**	(87,542)	(100,000)
Excess tax benefits from stock-based compensation	**786**	2,070	–
Proceeds from stock option transactions	**36**	2,383	1,308
Net cash provided by/(used in) financing activities	**(153,470)**	70,837	(657,158)
Currency adjustment:			
Effect of exchange rate changes on cash	**(480)**	(211)	1,229
Net increase/(decrease) in cash and cash equivalents	**(100,500)**	110,445	(20,966)
Cash and cash equivalents at beginning of period	**150,348**	39,903	60,869
Cash and cash equivalents at end of period	**$ 49,848**	$ 150,348	$ 39,903
Supplemental disclosure of cash flow information —			
Cash paid/(received) during the period for:			
Interest	**$ 20,989**	$ 22,813	$ 41,475
Income taxes	**$ (4,778)**	$ 553	$ 204,896
Non-cash financing activities —			
Issuance of common stock for retirement plan obligations: 90,140 shares, 15,788 shares and 331,434 shares for the	**$ 3,704**	$ 1,063	9,013

years ended December 31, 2008, 2007, and 2006, respectively

See Notes to Consolidated Financial Statements

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 Ltd., a firm providing securities brokerage and investment banking services in Europe headquartered in London, England; Piper Jaffray Asia Holdings Limited, an entity providing investment banking services in China headquartered in Hong Kong; Fiduciary Asset Management, LLC ("FAMCO"), an entity providing asset management services to clients through separately managed accounts and closed end funds offering an array of investment products; Piper Jaffray Financial Products Inc. and Piper Jaffray Financial Products II Inc., entities that facilitate customer derivative and inventory hedging transactions; and other immaterial subsidiaries. Piper Jaffray Companies and its subsidiaries (collectively, the "Company") operate as one reporting segment providing investment banking services, institutional sales, trading and research services, and asset management services. As discussed more fully in Note 4, the Company completed the sale of its Private Client Services branch network and certain related assets to UBS Financial Services, Inc., a subsidiary of UBS AG ("UBS"), on August 11, 2006, thereby exiting the Private Client Services ("PCS") business.

RESTATEMENT OF 2006 AND 2007 ANNUAL AND 2008 INTERIM FINANCIAL STATEMENTS

On February 2, 2009, the Company filed a Form 8-K reporting that the Company's previously issued (i) interim financial statements included in its Quarterly Reports on Form 10-Q for the periods ended March 31, June 30, and September 30, 2008 and (ii) annual financial statements for the years ended December 31, 2007 and 2006 included in its Annual Report on Form 10-K (collectively, the "Affected Financial Statements") and the related reports of its independent registered public accounting firm, Ernst & Young LLP, should no longer be relied upon.

As part of the compensation paid to employees, the Company uses stock-based compensation, consisting of restricted stock and stock options. Since January 1, 2006, the Company accounts for stock-based compensation in accordance with Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment" (SFAS 123(R)). Stock-based compensation was generally amortized on a straight-line basis over the vesting period of the award, which was typically three years. The majority of restricted stock and option grants provide for continued vesting after termination, provided that the employee does not violate certain post-termination restrictions as set forth in the award agreements or any agreements entered into upon termination. Management's interpretation was that the post-termination restrictions met the SFAS 123(R) definition of an in-substance service condition. Therefore, the Company considered the required service period to be the greater of the vesting period or the post-termination restricted period.

In the fourth quarter of 2008, management re-evaluated whether the post-termination restrictions of certain equity awards would continue to meet the criteria for an in-substance service condition given the historic changes to the industry. Following an extensive analysis, management concluded in January 2009, in consultation with the Company's auditors, that the post-termination restrictions had never met the criteria for an in-substance service condition for awards granted since January 1, 2006 based on the manner in which those complex criteria are interpreted in practice. This determination necessitated a restatement of the Affected Financial Statements to recognize expense for all of those equity awards in the year in which those awards were deemed to be earned, rather than over the three-year vesting period.

The total expense impact resulting from the revised stock-based compensation treatment was $51.7 million after-tax ($81.5 million pre-tax) for the three year period ended December 31, 2008, which includes the unamortized expense for the affected equity awards that were granted in 2008, 2007 and 2006 and an accrual for the equity awards earned in 2008 that will be granted in February 2009. The total expense was largely non-cash. The cumulative impact on shareholders' equity as of December 31, 2008 was an increase of $13.5 million, essentially all driven by the deferred tax benefit associated with the increase in expense.

The line items impacted by the restatement are as follows:

YEAR ENDED DECEMBER 31, (Dollars in thousands, except per share data)	2007 (As Reported)	2007 (Restated)	2006 (As Reported)	2006 (Restated)
Statement of operations data:				
Other income	$ 1,400	$ 6,856	$ 12,094	$ 14,208
Net revenues	498,922	504,378	502,934	505,048
Compensation and benefits	291,870	329,811	291,265	357,904
Total non-interest expense	436,008	473,949	405,061	471,700
Income from continuing operations before income tax expense	62,914	30,429	97,873	33,348
Income tax expense	17,887	5,790	34,974	10,210
Net income from continuing operations	45,027	24,639	62,899	23,138
Net income/(loss) from discontinued operations, net of tax	(2,811)	(2,696)	172,354	172,287
Net income	42,216	21,943	235,253	195,425
Earnings per basic common share data:				
Income from continuing operations	$ 2.73	$ 1.50	$ 3.49	$ 1.29
Income/(loss) from discontinued operations	(0.17)	(0.16)	9.57	9.57
Earnings per basic common share	2.56	1.33	13.07	10.86
Earnings per diluted common share data:				
Income from continuing operations	$ 2.59	$ 1.36	$ 3.32	$ 1.19
Income/(loss) from discontinued operations	(0.16)	(0.15)	9.09	8.88
Earnings per diluted common share	2.43	1.21	12.40	10.07
Weighted average number of common shares outstanding:				
Diluted	17,355	18,117	18,968	19,399
Statement of financial condition data:				
Other assets	$ 117,307	$ 154,137	$ 88,283	$ 113,088
Total assets	1,723,156	1,759,986	1,851,847	1,876,652
Accrued compensation	132,908	187,180	164,346	208,734
Total liabilities	810,567	864,839	927,408	971,796
Additional paid-in capital	737,735	780,394	723,928	744,173
Retained earnings	367,900	307,799	325,684	285,856
Total shareholders' equity	912,589	895,147	924,439	904,856

In conjunction with the above changes, the restatement also affects Note 12, Note 19, Note 21 and Note 24.

Note 2 Summary of Significant Accounting Policies

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Piper Jaffray Companies, its subsidiaries, and all other entities in which the Company has a controlling financial interest. All material intercompany accounts and transactions 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, a variable interest entity ("VIE"), a special-purpose entity ("SPE"), or a qualifying special-purpose entity ("QSPE") under U.S. generally accepted accounting principles.

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 to make decisions about the entity's activities. Voting interest entities, where we have a majority interest, are consolidated in accordance with Accounting Research Bulletin No. 51, "Consolidated Financial Statements," ("ARB 51"), as amended. ARB 51 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 Financial Accounting Standards Board Interpretation No. 46(R), "Consolidation of Variable

Interest Entities," ("FIN 46(R)"), VIEs are entities that lack one or more of the characteristics of a voting interest entity described above. FIN 46(R) states that 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 in which the Company is deemed to be the primary beneficiary.

SPEs are trusts, partnerships or corporations established for a particular limited purpose. The Company follows the accounting guidance in Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities" ("SFAS 140") to determine whether or not such SPEs are required to be consolidated. Certain SPEs meet the SFAS 140 definition of a QSPE. A QSPE can generally be described as an entity with significantly limited powers that are intended to limit it to passively holding financial assets and distributing cash flows based upon predetermined criteria. Based upon the guidance in SFAS 140, QSPEs are not consolidated. An entity accounts for its involvement with QSPEs under a financial components approach.

Certain SPEs do not meet the QSPE criteria because their permitted activities are not sufficiently limited or control remains with one of the owners. These SPEs are typically considered VIEs and are reviewed under FIN 46(R) to determine 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 Accounting Principles Board Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock." If the Company does not have a controlling financial interest in, or exert significant influence over, an entity, the Company accounts for its investment at fair value.

USE OF ESTIMATES

The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

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

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

COLLATERALIZED SECURITIES TRANSACTIONS

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

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

Interest is accrued on securities borrowed and loaned transactions and is included in (i) other receivables and other liabilities and accrued expenses on the consolidated statements of financial condition and (ii) the respective interest income and expense balances on the consolidated statements of operations.

CUSTOMER TRANSACTIONS

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

ALLOWANCE FOR DOUBTFUL ACCOUNTS

Management estimates an allowance for doubtful accounts to reserve for probable losses from unsecured and partially secured customer accounts. Management is continually evaluating its receivables from customers for collectibility and possible write-off by examining the facts and circumstances surrounding each customer where a loss is deemed possible.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments and other inventory positions owned, financial instruments and other inventory positions sold, but not yet purchased, and securitized municipal tender option bonds are carried at fair value on the consolidated statements of financial condition, with unrealized gains and losses reflected in the consolidated statements of operations. The fair value of a financial instrument is the amount 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 (i.e. the exit price). Securities (both long and short) are recognized on a trade-date basis.

Fair Value Hierarchy – Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"). Prior to January 1, 2008, the Company followed the American Institute of Certified Public Accountants ("AICPA") Audit and Accounting Guide, Brokers and Dealers in Securities, when determining fair value for financial instruments. SFAS 157 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and enhances disclosure requirements for fair value measurements. SFAS 157 maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect our assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

Level I — Quoted prices (unadjusted) are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market. The type of financial instruments included in Level I are highly liquid instruments with quoted prices such as equities listed in active markets, certain U.S. treasury bonds, money market securities and certain firm investments.

Level II — Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. The nature of these financial instruments include instruments for which quoted prices are available but traded less frequently, derivative instruments whose fair value have been derived using a model where inputs to the model are directly observable in the market, or can be derived principally from or corroborated by observable market data, and instruments that are fair valued using other financial instruments, the parameters of which can be directly observed. Instruments which are generally included in this category are certain U.S. treasury bonds and U.S. government agency securities, certain corporate bonds, certain municipal bonds, certain asset-backed securities, certain convertible securities, derivatives, securitized municipal tender option bonds and tender option bond trust certificates.

Level III — Instruments that have little to no pricing observability as of the report date. These financial instruments do not have two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation. Instruments included in this category generally include auction rate municipal securities, certain asset-backed securities, certain firm investments, certain U.S. government agency securities, certain convertible securities and certain corporate bonds.

Certain non-financial assets and non-financial liabilities measured at fair value on a recurring basis include reporting units measured at fair value in the first step of the goodwill impairment test. Certain non-financial assets and non-financial liabilities measured at fair-value on a non-recurring basis include non-financial assets and non-financial liabilities measured at fair value in the second step of a goodwill impairment test, as well as intangible assets measured at fair value for impairment assessment. SFAS 157 will be applicable to these fair value measurements beginning January 1, 2009.

Valuation Of Financial Instruments – When available, the Company values financial instruments at observable market prices, observable market parameters, or broker or dealer prices (bid and ask prices). In the case of financial instruments transacted on recognized exchanges, the observable market prices represent quotations for completed transactions from the exchange on which the financial instrument is principally traded.

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

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

Derivative contracts are financial instruments such as forwards, futures, swaps or option contracts that derive their value from underlying assets, reference rates, indices or a combination of these factors. A derivative contract generally represents future commitments to purchase or sell financial instruments at specified terms on a specified date or to exchange currency or interest payment streams based on the contract or notional amount. Derivative contracts exclude certain cash instruments, such as mortgage-backed securities, interest-only and principal-only obligations and indexed debt instruments that derive their values or contractually required cash flows from the price of some other security or index.

The fair values related to derivative contract transactions are reported in financial instruments and other inventory positions owned and financial instruments and other inventory positions sold, but not yet purchased on the consolidated statements of financial condition and any unrealized gain or loss resulting from changes in fair values of derivatives is reported on the consolidated statements of operations. Fair value is determined using quoted market prices when available or pricing models based on the net present value of estimated future cash flows. Management deems the net present value of estimated future cash flows model to provide the best estimate of fair value as most of our derivative products are interest rate products. The valuation models used require inputs including contractual terms, market prices, yield curves, credit curves and measures of volatility.

The Company does not utilize "hedge accounting" as described within Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). Derivatives are reported on a net-by-counterparty basis when a legal right of offset exists and on a net-by-cross product basis when applicable provisions are stated in a master netting agreement. Cash collateral received or paid is netted on a counterparty basis, provided legal right of offset exists.

SECURITIZED MUNICIPAL TENDER OPTION BONDS

The Company securitized highly rated municipal bonds as part of its tender option bond program. Such transfers of financial assets are accounted for as sales when the Company has relinquished control over the transferred assets with the resulting gain included in institutional brokerage revenue on the consolidated statements of operations. Transfers that are not accounted for as sales are accounted for as secured borrowings by consolidating the assets and liabilities of the trusts onto the Company's consolidated statements of financial condition.

FIXED ASSETS
Fixed assets include furniture and equipment, software and leasehold improvements. Depreciation of furniture and equipment and software is provided using the straight-line method over estimated useful lives of three to ten years. Leasehold improvements are amortized over their estimated useful life or the life of the lease, whichever is shorter. Additionally, certain costs incurred in connection with internal-use software projects are capitalized and amortized over the expected useful life of the asset, generally three to seven years.

LEASES
The Company leases its corporate headquarters and other offices under various non-cancelable leases. The leases require payment of real estate taxes, insurance and common area maintenance, in addition to rent. The terms of the Company's lease agreements generally range up to 10 years. Some of the leases contain renewal options, escalation clauses, rent free holidays and operating cost adjustments.

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

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

GOODWILL AND INTANGIBLE ASSETS
Goodwill represents the excess of purchase price over the fair value of net assets acquired using the purchase method of accounting. The recoverability of goodwill is evaluated annually, at a minimum, or on an interim basis if events or circumstances indicate a possible inability to realize the carrying amount. The evaluation includes assessing the estimated fair value of the goodwill based on market prices for similar assets, where available, the Company's market capitalization and the present value of the estimated future cash flows associated with the goodwill.

Intangible assets with determinable lives consist of asset management contractual relationships, non-compete agreements, certain trade names and trademarks, and software technologies that are amortized over their estimated useful lives ranging from three to ten years.

OTHER RECEIVABLES
Other receivables includes management fees receivable, accrued interest and loans made to revenue-producing employees, typically in connection with their recruitment. Employee loans are forgiven based on continued employment and are amortized to compensation and benefits using the straight-line method over the respective terms of the loans, which generally range up to three years.

OTHER ASSETS
Other assets include net deferred tax assets, income tax receivables, prepaid expenses and proprietary investments. The Company's investments include investments in partnerships, bridge-loan financings and investments to fund deferred compensation liabilities.

REVENUE RECOGNITION
Investment Banking — Investment banking revenues, which include underwriting fees, management fees and advisory fees, are recorded when services for the transactions are completed under the terms of each engagement. Expenses associated with such transactions are deferred until the related revenue is recognized or the engagement is otherwise concluded. Investment banking revenues are presented net of related expenses. Expenses related to investment banking deals not completed are recognized as non-interest expenses on the consolidated statement of operations.

Institutional Brokerage — Institutional brokerage revenues include (i) commissions received from customers for the execution of brokerage transactions in listed and over-the-counter (OTC) equity, fixed income and convertible debt securities, which are recorded on a trade date basis, (ii) trading gains and losses and (iii) fees received by the Company for equity research.

Asset Management — asset management fees, which are derived from providing investment advisory services, are recognized in the period in which services are provided. Fees are defined in client contracts as either fixed or based on a percentage of portfolio assets under management.

STOCK-BASED COMPENSATION
Effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment," ("SFAS 123(R)"), using the modified prospective transition method. SFAS 123(R) requires all stock-based compensation to be expensed in the consolidated

statement of operations at fair value. Expense related to shared-based awards that do not require a future service period are recognized in the year in which the awards were deemed to be earned. Share-based awards that require future service are amortized over the relevant service period net of estimated forfeitures.

INCOME TAXES

Income tax expense is recorded using the asset and liability method. Deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to temporary differences between amounts reported for income tax purposes and financial statement purposes, using current tax rates. A valuation allowance is recognized if it is anticipated that some or all of a deferred tax asset will not be realized. Tax reserves for uncertain tax positions are recorded in accordance with FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement 109" ("FIN 48").

EARNINGS PER SHARE

Basic earnings per common share is computed by dividing net income by the weighted average number of common shares outstanding for the year. Diluted earnings per common share is calculated by adjusting the weighted average outstanding shares to assume conversion of all potentially dilutive restricted stock and stock options.

FOREIGN CURRENCY TRANSLATION

The Company consolidates foreign subsidiaries, which have designated their local currency as their functional currency. Assets and liabilities of these foreign subsidiaries are translated at year-end rates of exchange, and statement of operations accounts are translated at an average rate for the period. In accordance with Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation," ("SFAS 52"), gains or losses resulting from translating foreign currency financial statements are reflected in other comprehensive income, a separate component of shareholders' equity. Gains or losses resulting from foreign currency transactions are included in net income.

RECLASSIFICATIONS

Certain prior period amounts have been reclassified to conform to the current year presentation.

Note 3 Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements, but its application may, for some entities, change current practice. Changes to current practice stem from the revised definition of fair value and the application of this definition within the framework established by SFAS 157. SFAS 157 was effective for the Company beginning January 1, 2008. SFAS 157 did not have a material affect on the Company's consolidated financial statements. In accordance with FSP FAS 157-2, "Effective Date of FASB Statement No. 157" ("FSP 157-2"), the Company will defer the application of SFAS 157 for non-financial assets and non-financial liabilities until January 1, 2009. FSP 157-2 is not expected to have a material affect on the Company's consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 permits entities to choose to measure certain financial assets and liabilities and other eligible items at fair value, which are not otherwise currently allowed to be measured at fair value. Under SFAS 159, the decision to measure items at fair value is made at specified election dates on an irrevocable instrument-by-instrument basis. Entities electing the fair value option would be required to recognize changes in fair value in earnings and to expense upfront costs and fees associated with the item for which the fair value option is elected. Entities electing the fair value option are required to distinguish on the face of the statement of financial position, the fair value of assets and liabilities for which the fair value option has been elected and similar assets and liabilities measured using another measurement attribute. SFAS 159 was effective for the Company beginning January 1, 2008. SFAS 159 did not have a material affect on the Company's consolidated financial statements.

In April 2007, the FASB issued FSP No. FIN 39-1, "Amendment of FASB Interpretation No. 39" ("FSP FIN 39-1"). FSP FIN 39-1 modifies FIN No. 39, "Offsetting of Amounts Related to Certain Contracts," and permits companies to offset cash collateral receivables or payables with net derivative positions under certain circumstances. FSP FIN 39-1 was effective for the Company beginning January 1, 2008. FSP FIN 39-1 did not have a material affect on the Company's consolidated financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), "Business Combinations" ("SFAS 141(R)"). SFAS 141(R) expands the definition of transactions and events that qualify as business combinations; requires that acquired assets and liabilities, including contingencies, be recorded at the fair value determined on the acquisition date and changes thereafter reflected in revenue, not goodwill; changes the recognition timing for restructuring costs; and requires acquisition costs to be expensed as incurred. Adoption of SFAS 141(R) is required for combinations after December 15, 2008. Early adoption and retroactive application of SFAS 141(R) to fiscal years preceding the effective date are not permitted. The Company will apply the standard to any business combinations within the scope of SFAS 141(R) occurring after December 31, 2008.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, "Noncontrolling Interest in Consolidated Financial Statements" (SFAS 160). SFAS 160 re-characterizes minority interests in consolidated subsidiaries as non-controlling interests and requires the classification of minority interests as a component of equity. Under SFAS 160, a change in control will be measured at fair value, with any gain or loss recognized in earnings. SFAS 160 is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. The provisions of SFAS 160 are to be applied prospectively, except for the presentation and disclosure requirements which are to be applied retrospectively to all periods presented. SFAS 160 is not expected to have a material effect on the Company's consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161 "Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133" ("SFAS 161"). SFAS 161 intends to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures about their impact on an entity's financial position, financial performance, and cash flows. SFAS 161 requires disclosures regarding the objectives for using derivative instruments, the fair value of derivative instruments and their related gains and losses, and the accounting for derivatives and related hedged items. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008, with early adoption permitted. Because SFAS 161 impacts the Company's disclosure and not its accounting treatment for derivative instruments and any hedge items, the Company's adoption of SFAS 161 will not impact its consolidated results of operations and financial condition.

In October 2008, the FASB issued FSP FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active" ("FSP 157-3"), which was effective upon issuance, including prior periods for which financial statements have not been issued. FSP 157-3 clarifies the application of SFAS No. 157 "Fair Value Measurements" ("SFAS 157") in a market that is not active and provides an example of key considerations to determine the fair value of financial assets when the market for those assets is not active. The adoption of FSP 157-3 did not have a material effect on the Company's consolidated results of operations and financial condition.

In December 2008, the FASB issued FSP FAS 140-4 and FIN 46(R)-8 "Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities" ("FSP 140-4"), which is effective for the first reporting period ending after December 15, 2008. FSP 140-4 requires additional disclosure related to transfers of financial assets and variable interest entities. Since FSP 140-4 impacts the Company's disclosures and not its accounting treatment for transfers of financial assets and variable interest entities, the Company's adoption of FSP 140-4 did not impact its consolidated results of operations and financial condition.

Note 4 Discontinued Operations

On August 11, 2006, the Company and UBS completed the sale of the Company's PCS branch network under a previously announced asset purchase agreement. The purchase price under the asset purchase agreement was approximately $750 million, which included $500 million for the branch network and approximately $250 million for the net assets of the branch network, consisting principally of customer margin receivables.

In accordance with the provisions of Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), the results of PCS operations have been classified as discontinued operations for all periods presented. The Company recorded income from discontinued operations, net of tax, of $0.5 million for the year ended December 31, 2008. The Company may incur discontinued operations expense or income related to changes in litigation reserve estimates for retained PCS litigation matters and for changes in estimates to PCS related unrecognized tax benefits, and occupancy and severance restructuring charges if the facts that support the Company's estimates change.

In connection with the sale of the Company's PCS branch network, the Company initiated a plan in 2006 to significantly restructure the Company's support infrastructure. All restructuring costs related to the sale of the PCS branch network are included within discontinued operations in accordance with SFAS 144. See Note 17 for additional information regarding the Company's restructuring activities.

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)	**December 31, 2008**	December 31, 2007	December 31, 2006
Financial instruments and other inventory positions owned*(1)* :			
Corporate securities:			
Equity securities	**$ 4,148**	$ 14,977	$ 14,163
Convertible securities	**7,088**	102,938	59,118
Fixed income securities	**72,571**	64,367	216,339
Municipal Securities:			
Auction rate municipal securities	**17,650**	202,500	76,000
Variable rate demand notes	**18,675**	32,542	63,675
Other municipal securities	**136,844**	158,624	165,067
Asset-backed securities	**52,385**	44,006	18,882
U.S. government agency securities	**59,341**	48,074	158,108
U.S. government securities	**67,631**	25,113	10,715
Derivative contracts	**56,502**	35,961	25,142
Other	**–**	13,921	8,133
	$ 492,835	$ 743,023	$ 815,342
Financial instruments and other inventory positions sold, but not yet purchased:			
Corporate securities:			
Equity securities	**$ 6,335**	$ 66,856	$ 31,452
Convertible securities	**–**	4,764	2,543
Fixed income securities	**9,283**	26,310	16,378
Municipal securities	**23,250**	11	5
U.S. government agency securities	**10,298**	25,752	51,001
U.S. government securities	**58,377**	33,972	109,719
Derivative contracts	**35,670**	18,388	6,486
Other	**–**	138	–
	$ 143,213	$ 176,191	$ 217,584

(1) Excludes $84.6 million, $49.5 million and $51.2 million in securitized municipal tender option bonds held in securitized trusts at December 31, 2008, 2007 and 2006, respectively. These financial instruments are included in securitized municipal tender option bonds on the consolidated statements of financial condition.

At December 31, 2008, 2007 and 2006, financial instruments and other inventory positions owned in the amount of $112.0 million, $242.2 million and $89.8 million, respectively, had been pledged as collateral for the Company's repurchase agreements and secured borrowings.

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 swaps, futures and exchange-traded options.

DERIVATIVE CONTRACT FINANCIAL INSTRUMENTS

The Company uses interest rate swaps, interest rate locks, and forward contracts to facilitate customer transactions and as a means to manage risk in certain inventory positions. Interest rate swaps are also used to manage interest rate exposure associated with the Company's tender option bond program. As of December 31, 2008, 2007 and 2006, the Company was counterparty to notional/contract amounts of $7.2 billion, $7.5 billion and $5.8 billion, respectively, of derivative instruments.

The Company's derivative contracts are recorded at fair value. Fair values for derivative contracts represent amounts estimated to be received from or paid to a counterparty in settlement of these instruments. These derivatives are valued using quoted market prices when available or pricing 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. Derivatives are reported on a net-by-counterparty basis when legal right of offset exists, and on a net-by-cross product basis 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.

Note 6 Fair Value of Financial Instruments

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 the characteristics specific to the transaction. Financial instruments with readily available active quoted prices for which fair value can be measured from actively quoted prices 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 table summarizes the valuation of our financial instruments by SFAS 157 pricing observability levels as of December 31, 2008:

(Dollars in thousands)	Level I(1)	Level II(1)	Level III(1)	Counterparty Collateral Netting(2)	Total
Assets:					
Financial instruments and other inventory positions owned:					
Non-derivative instruments	$ 65,372	$ 324,836	$ 46,125	$ –	$ 436,333
Derivative instruments	–	84,502	–	(28,000)	56,502
Total financial instruments and other inventory positions owned:	65,372	409,338	46,125	(28,000)	492,835
Securitized municipal tender option bonds	–	84,586	–	–	84,586
Cash equivalents	31,595	–	–	–	31,595
Investments	1,741	–	433	–	2,174
Total assets	$ 98,708	$ 493,924	$ 46,558	$ (28,000)	$ 611,190
Liabilities:					
Financial instruments and other inventory positions sold, but not yet purchased:					
Non-derivative instruments	$ 20,759	$ 86,784	$ –	$ –	$ 107,543
Derivative instruments	–	63,670	–	(28,000)	35,670
Total financial instruments and other inventory positions sold, but not yet purchased:	20,759	150,454	–	(28,000)	143,213
Tender option bond trust certificates	–	87,982	–	–	87,982
Investments	–	–	366	–	366
Total liabilities	$ 20,759	$ 238,436	$ 366	$ (28,000)	$ 231,561

(1) Level I financial instruments include highly liquid instruments with quoted prices such as certain U.S. treasury bonds, money market securities, equities listed in active markets and certain firm investments. Level II financial instruments generally include certain U.S. treasury bonds and U.S. government agency securities, certain corporate bonds, certain municipal bonds, certain asset-backed securities, certain convertible securities, derivatives, securitized municipal tender option bonds and tender option bond trust certificates. Level III financial instruments generally include auction rate municipal securities, certain asset-backed securities, certain firm investments, certain convertible securities and certain corporate bonds.

(2) Represents cash collateral and the impact of netting on a counterparty basis.

The following table summarizes the changes in fair value carrying values associated with Level III financial instruments during the year ended December 31, 2008:

(Dollars in thousands)	Non-Derivative Assets	Non-Derivative Liabilities	Investment Assets	Investment Liabilities
Balance at December 31, 2007	**$ 230,703**	**$ –**	**$ 6,015**	**$ 1,260**
Purchases/(sales), net	(155,568)	2,984	(2,681)	(1,163)
Net transfers in/(out)	2,759	(2,807)	(2,543)	–
Realized gains/(losses)(3)	(13,760)	(48)	1,662	913
Unrealized gains/(losses)(3)	(18,009)	(129)	(2,020)	(644)
Balance at December 31, 2008	**$ 46,125**	**$ –**	**$ 433**	**$ 366**

(3) Realized and unrealized gains/(losses) related to non-derivative assets are reported in institutional brokerage on the consolidated statements of operations. Realized and unrealized gains/(losses) related to investments are reported in other income/(loss) on the consolidated statements of operations.

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 $46.6 million, or 7.6 percent of financial instruments measured at fair value. This balance primarily consists of auction rate securities where the market has ceased to function and asset-back securities, principally collateralized by aircraft that have experienced low volumes of executed transactions, such that unobservable inputs had to be utilized for the fair value measurements of these instruments. Our auction rate securities are valued at par based upon our expectations of issuer refunding plans. Asset-back securities are valued using cash flow models that utilize unobservable inputs that include airplane lease rates, maintenance costs and airplane liquidation proceeds.

Note 7 Securitizations

Through its tender option bond program, the Company sold highly rated municipal bonds into securitization vehicles ("Securitized Trusts") that are funded by the sale of variable rate certificates to institutional customers seeking variable rate tax-free investment products. These variable rate certificates reprice weekly and the Company receives a fee to remarket the variable rate certificates. Securitization transactions meeting certain SFAS 140 criteria are treated as sales, with the resulting gain included in institutional brokerage revenue on the consolidated statements of operations. If a securitization does not meet the asset sale requirements of SFAS 140, the transaction is recorded as a borrowing. There were 7, 24, and 20 Securitized Trusts outstanding as of December 31, 2008, 2007 and 2006, respectively.

At December 31, 2008, the Company had a total of seven Securitized Trusts that did not meet the asset sale requirements of SFAS 140, causing the Company to account for these transactions as borrowings by consolidating the assets and liabilities of the trusts onto the Company's consolidated statements of financial condition. Accordingly, the Company recorded an asset for the underlying bonds of $84.6 million (par value $113.6 million) as of December 31, 2008, in securitized municipal tender option bonds and a liability for the certificates sold by the trusts for $88.0 million as of December 31, 2008, in tender option bond trust certificates on the consolidated statement of financial condition. At December 31, 2007, the Company had three Securitized Trusts that did not meet the asset sale requirements of SFAS 140, causing the Company to consolidate these trusts. Accordingly, the Company recorded an asset for the underlying bonds of $49.5 million (par value $49.1 million) as of December 31, 2007, in securitized municipal tender option bonds and a liability for the certificates sold by the trusts for $48.5 million as of December 31, 2007, in tender option bond trust certificates on the consolidated statement of financial condition. At December 31, 2006 the Company had a total of three Securitized Trusts that did not meet the asset sale requirements of SFAS 140, causing the Company to account for these transactions as borrowings by consolidating the assets and liabilities of the trusts. Accordingly, the Company recorded an asset for the underlying bonds of $51.2 million (par value $50.6 million) as of December 31, 2006, in securitized municipal tender option bonds and a liability for the certificates sold by the trusts for $50.1 million as of December 31, 2006, in tender option bond trust certificates on the consolidated statement of financial condition.

The Company has contracted with a major third-party financial institution who acts as the liquidity provider for the Company's tender option bond Securitized Trusts. The Company has agreed to reimburse this party for any losses associated with providing liquidity to the trusts. The maximum exposure to loss at December 31, 2008 was $88.0 million representing the outstanding amount of all trust certificates. This exposure to loss is mitigated, however, by the underlying bonds in the trusts. These bonds had a market value of approximately $84.6 million at December 31, 2008. The Company believes that the likelihood it will be required to fund the reimbursement agreement obligation under provisions of the arrangement is probable as the value of tender option bond trust certificates outstanding exceeds the value of securitized municipal tender option bonds by $3.4 million as of December 31, 2008.

During 2008, the Company made the determination that 23 Securitized Trusts formerly meeting the definition of qualified special purpose entities no longer qualified for off-balance sheet accounting treatment, because the Company believed it would have material involvement with the Securitized Trusts under the Company's reimbursement obligation to the liquidity provider for the Securitized Trusts. Consequently, the Company consolidated the 23 Securitized Trusts that no longer qualified for off-balance sheet accounting treatment, adding to the three Securitized Trusts already on the Company's consolidated statement of financial condition. As of December 31, 2008, four of the 23 Securitized Trusts remain on the Company's consolidated statement of financial condition and 19 of the Securitized Trusts have been dissolved.

The Company accounted for its involvement with securitization transactions meeting the SFAS 140 criteria for sales under a financial components approach in which the Company recognized only its residual interest in each structure and accounted for the residual interest as a financial instrument owned, which was recorded at fair value on the consolidated statements of financial condition. The Company had no residual interests at December 31, 2008. The fair value of retained interests was $13.9 million and $8.1 million at December 31, 2007 and 2006, respectively, with a weighted average life of 8.0 years and 8.4 years. The fair value of retained interests at December 31, 2007 and 2006 was estimated based on the present value of future cash flows using management's best estimates of the key assumptions — expected yield, credit losses of 0 percent and a 12 percent discount rate.

Certain cash flow activity for the municipal bond securitizations described above includes:

YEAR ENDED DECEMBER 31, (Dollars in thousands)	2008	2007	2006
Proceeds from new securitizations	$ 77,134	$ 58,913	$ 7,578
Remarketing fees received	133	125	132
Cash flows received on retained interests	6,240	5,039	6,019

The Company enters into interest rate swap agreements to manage interest rate exposure associated with its Securitized Trusts, which have been recorded at fair value and resulted in a liability of approximately $6.9 million, $11.1 million and $5.7 million at December 31, 2008, 2007 and 2006, respectively.

Note 8 Variable Interest Entities

In the normal course of business, the Company regularly creates or transacts with entities that may be VIEs. These entities are either securitization vehicles or investment vehicles. See Note 7 for a discussion of the Company's securitization vehicles.

The Company has investments in and/or acts as the managing partner or member to approximately 22 partnerships and limited liability companies ("LLCs"). 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. At December 31, 2008, the Company's aggregate net investment in these partnerships and LLCs totaled $10.7 million. The Company's remaining commitment to these partnerships and LLCs was $3.7 million at December 31, 2008.

The Company has identified one partnership and three LLCs described above as VIEs. The Company is determined to be the primary beneficiary when it has a variable interest, or combination of variable interests, that will absorb a majority of the VIE's expected losses, receives a majority of the VIE's expected residual returns, or both. It was determined that the Company is not the primary beneficiary of these VIEs. However, the Company owns a significant variable interest in these VIEs. These VIEs had assets approximating $195.9 million at December 31, 2008. The Company's exposure to loss from these entities is $5.1 million, which is the value of its capital contributions recorded in other assets in the consolidated statement of financial condition at December 31, 2008. The Company had no liabilities related to these entities at December 31, 2008.

The Company has not provided financial or other support to the VIEs that it was not previously contractually required to provide as of December 31, 2008, 2007 and 2006.

Note 9 Receivables from and Payables to Brokers, Dealers and Clearing Organizations

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

YEAR ENDED DECEMBER 31, (Dollars in thousands)	2008	2007	2006
Receivable arising from unsettled securities transactions, net	$ 79,370	$ 591	18,233
Deposits paid for securities borrowed	18,475	55,257	271,028
Receivable from clearing organizations	17,661	7,077	6,811
Securities failed to deliver	2,282	7,647	1,674
Other	4,332	17,096	15,128
	$ 122,120	$ 87,668	$ 312,874

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

YEAR ENDED DECEMBER 31, *(Dollars in thousands)*	2008	2007	2006
Deposits received for securities loaned	$ –	$ –	$ 189,214
Payable to clearing organizations	8,482	12,648	17,140
Securities failed to receive	1,565	11,021	4,531
Other	2	6	70
	$ 10,049	$ 23,675	$ 210,955

Deposits paid for securities borrowed and deposits received for securities loaned declined from December 31, 2006, as the Company discontinued its stock loan conduit business in the first quarter of 2007.

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 10 Receivables from and Payables to Customers

Amounts receivable from customers at December 31 included:

YEAR ENDED DECEMBER 31, *(Dollars in thousands)*	2008	2007	2006
Cash accounts	$ 25,787	$ 80,099	$ 27,407
Margin accounts	13,441	44,230	24,034
Total receivables	$ 39,228	$ 124,329	$ 51,441

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

Amounts payable to customers at December 31 included:

YEAR ENDED DECEMBER 31, *(Dollars in thousands)*	2008	2007	2006
Cash accounts	$ 25,559	$ 64,205	$ 43,714
Margin accounts	8,629	27,067	40,185
Total payables	$ 34,188	$ 91,272	$ 83,899

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

Note 11 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 $97.9 million, $152.1 million, and $434.2 million at December 31, 2008, 2007 and 2006, respectively, of which $62.3 million, $51.6 million, and $314.3 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 trading securities sold, but not yet purchased.

Note 12 Other Assets

Other assets includes investments in public companies, investments in private equity partnerships that are valued using the equity method of accounting, investments in private companies and bridge-loans valued at cost, net deferred tax assets, income tax receivables and prepaid expenses.

Other assets at December 31 included:

YEAR ENDED DECEMBER 31, *(Dollars in thousands)*	**2008**	2007	2006
		(Restated)	*(Restated)*
Investments at fair value	**$ 2,174**	$ 9,320	$ 5,326
Investments at cost	**33,988**	22,949	6,884
Investments valued using equity method	**19,817**	25,010	17,178
Deferred income tax assets	**87,420**	81,596	66,868
Income tax receivables	**35,268**	3,465	8,492
Prepaid expenses	**5,779**	7,596	6,284
Other	**1,292**	4,201	2,056
Total other assets	**$ 185,738**	$ 154,137	$ 113,088

Note 13 Goodwill and Intangible Assets

The following table presents the changes in the carrying value of goodwill and intangible assets for the year ended December 31, 2008:

YEAR ENDED DECEMBER 31, *(Dollars in thousands)*	Continuing Operations	Discontinued Operations	Consolidated Company
Goodwill			
Balance at December 31, 2005	**$ 231,567**	**$ 85,600**	**$ 317,167**
Goodwill acquired	–	–	–
Goodwill disposed in PCS sale	–	(85,600)	(85,600)
Impairment losses	–	–	–
Balance at December 31, 2006	**231,567**	–	**231,567**
Goodwill acquired	53,237	–	53,237
Impairment losses	–	–	–
Balance at December 31, 2007	**284,804**	–	**284,804**
Goodwill acquired	6,278	–	6,278
Impairment losses	(130,500)	–	(130,500)
Balance at December 31, 2008	**$ 160,582**	$ –	**$ 160,582**

(Dollars in thousands)			
Intangible assets			
Balance at December 31, 2005	**$ 3,067**	$ –	**$ 3,067**
Intangible assets acquired	–	–	–
Amortization of intangible assets	(1,600)	–	(1,600)
Impairment losses	–	–	–
Balance at December 31, 2006	**1,467**	–	**1,467**
Intangible assets acquired	17,953	–	17,953
Amortization of intangible assets	(2,276)	–	(2,276)
Impairment losses	–	–	–
Balance at December 31, 2007	**17,144**	–	**17,144**
Intangible assets acquired	–	–	–
Amortization of intangible assets	(2,621)	–	(2,621)
Impairment losses	–	–	–
Balance at December 31, 2008	**$ 14,523**	$ –	**$ 14,523**

The Company tests goodwill for impairment on an annual basis and on an interim basis when certain events or circumstances exist. The Company tests for impairment at the reporting unit level, which are generally one level below its operating segments. The Company has identified two principal reporting units: capital markets and asset management. 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 two 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. The estimated fair values of our reporting units are compared with their carrying values, which includes the allocated goodwill. If the estimated fair value is 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.

The Company completed its annual goodwill impairment testing as of November 30, 2008, which resulted in a non-cash goodwill impairment charge of $130.5 million. The charge relates to the capital markets reporting unit and primarily pertains to goodwill created from the 1998 acquisition of Piper Jaffray by U.S. Bancorp, which was retained by the Company when the Company spun-off from U.S. Bancorp on December 31, 2003. The fair value of the capital markets reporting unit was calculated based on the following factors: market capitalization, a discounted cash flow model using revenue and profits forecasts and public company comparables. The impairment charge resulted from deteriorating economic and market conditions in 2008, which led to reduced valuations from these factors. A continued downturn in market conditions could result in additional impairment charges in future periods.

The addition of goodwill during 2008 was the result of FAMCO meeting certain performance conditions set forth in the 2007 purchase agreement with the Company. The purchase agreement included the potential for additional cash consideration to be paid in the form of three annual payments contingent upon revenue exceeding certain revenue run-rate thresholds. The Company expects 100 percent of goodwill acquired in 2008 to be deductible for tax purposes.

Intangible assets with determinable lives consist of asset management contractual relationships, non-compete agreements, certain trade names and trademarks, and software technologies that are amortized over their estimated useful lives ranging from three to ten years. The following table presents the aggregate intangible asset amortization expense for the years ended:

(Dollars in thousands)	
2009	$ 2,456
2010	2,312
2011	2,177
2012	1,804
2013	1,687
Thereafter	4,087
	$ 14,523

Note 14 Fixed Assets

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

(Dollars in thousands)	**2008**	2007	2006
Furniture and equipment	**$ 40,287**	$ 41,730	$ 38,514
Leasehold improvements	**19,990**	22,155	18,518
Software	**17,949**	18,807	15,601
Projects in process	**1,293**	24	1,259
Total	**79,519**	82,716	73,892
Less accumulated depreciation and amortization	**(59,485)**	(55,508)	(48,603)
	$ 20,034	$ 27,208	$ 25,289

For the years ended December 31, 2008, 2007 and 2006, depreciation and amortization of furniture and equipment, software and leasehold improvements for continuing operations totaled $9.0 million, $9.1 million and $9.5 million, respectively, and are included in occupancy and equipment on the consolidated statements of operations.

Note 15 Financing

The Company has committed short-term financing available on a secured basis and uncommitted short-term financing available on both a secured and unsecured basis. The availability of the Company's uncommitted lines are subject to approval by 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. Repurchase agreements are also used as a source of funding.

During 2008, the Company entered into a $250 million committed revolving credit facility with U.S. Bank, N.A. in replacement of an existing $100 million uncommitted revolving credit facility. The Company uses this credit facility in the ordinary course of business to fund a portion of its daily operations, and the amount borrowed under the facility varies daily based on the Company's funding needs. Advances under this facility are secured by certain marketable securities. However, of the $250 million in financing available under this facility, $125 million may only be drawn with specific municipal securities as collateral. The facility includes a covenant that requires the Company to maintain a minimum net capital of $180 million, and the unpaid principal amount of all advances under this facility will be due on September 25, 2009. The Company will also pay a nonrefundable commitment fee on the unused portion of the facility on a quarterly basis.

At December 31, 2008, the Company had no advances against this line of credit.

The Company's short-term financing bears interest at rates based on the federal funds rate. For the years ended December 31, 2008, 2007 and 2006, the weighted average interest rate on borrowings was 2.72 percent, 5.41 percent and 5.72 percent, respectively. At December 31, 2008, 2007 and 2006, no formal compensating balance agreements existed, and the Company was in compliance with all debt covenants related to its financing facilities.

Note 16 Contingencies, Commitments and Guarantees

LEGAL CONTINGENCIES

The Company has been named as a defendant in various legal proceedings arising primarily from securities brokerage and investment banking activities, including 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 complaints, legal actions, investigations and proceedings. The Company's reserves totaled $17.0 million, $8.4 million, and $13.1 million at December 31, 2008, 2007 and 2006, respectively, which is included within other liabilities and accrued expenses on the consolidated statements of financial condition. A significant portion of the Company's reserves at December 31, 2008 will be funded by an insurance receivable, which is recorded within other receivables on the consolidated statement of financial condition.

As part of the asset purchase agreement between UBS and the Company for the sale of the PCS branch network, the Company retained liabilities arising from regulatory matters and certain litigation relating to the PCS business prior to the sale. Adjustments to litigation reserves for matters pertaining to the PCS business are included within discontinued operations on the consolidated statements of operations.

Given uncertainties regarding the timing, scope, volume and outcome of pending and potential litigation, arbitration 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 after taking into account its established reserves, that pending legal actions, investigations and 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.

Litigation-related reserve activity for continuing operations included within other operating expenses resulted in an expense of $2.0 million, a benefit of $4.4 million, and a benefit of $21.4 million for the years ended December 31, 2008, 2007 and 2006, respectively.

OPERATING LEASE COMMITMENTS

The Company leases office space throughout the United States and in a limited number of foreign countries where the Company's international operations reside. The Company's only material lease is for its corporate headquarters located in Minneapolis, Minnesota. Aggregate minimum lease commitments under operating leases as of December 31, 2008 are as follows:

(Dollars in thousands)	
2009	$ 17,402
2010	15,891
2011	12,256
2012	11,084
2013	10,701
Thereafter	10,708
	$ 78,042

Total minimum rentals to be received from 2009 through 2016 under noncancelable subleases were $14.9 million at December 31, 2008.

Rental expense, including operating costs and real estate taxes, charged to continuing operations was $16.1 million, $15.4 million and $13.7 million for the years ended December 31, 2008, 2007 and 2006, respectively.

FUND COMMITMENTS

As of December 31, 2008, the Company had commitments to invest approximately $3.7 million in limited partnerships that make investments in private equity

and venture capital funds. The commitments are estimated to be funded, if called, through the end of the respective investment periods ranging from 2009 to 2011.

OTHER COMMITMENTS

The Company is a member of numerous exchanges and clearinghouses. Under the membership agreements with these entities, members generally are required to guarantee the performance of other members, and if a member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet shortfalls. To mitigate these performance risks, the exchanges and clearinghouses often require members to post collateral. The Company's maximum potential liability under these arrangements cannot be quantified. However, management believes the likelihood that the Company would be required to make payments under these arrangements is remote. Accordingly, no liability is recorded in the consolidated financial statements for these arrangements.

REIMBURSEMENT GUARANTEE

The Company has contracted with a major third-party financial institution to act as the liquidity provider for the Company's tender option bond securitized trusts. The Company has agreed to reimburse this party for any losses associated with providing liquidity to the trusts. The maximum exposure to loss at December 31, 2008 was $88.0 million representing the outstanding amount of all trust certificates. This exposure to loss is mitigated by the underlying bonds in the trusts. These bonds had a market value of approximately $84.6 million at December 31, 2008. At December 31, 2008, $74.9 million of these bonds were insured against default of principal or interest by triple-A rated monoline bond insurance companies. One trust representing $9.7 million in bonds was insured against default of principal or interest by a double-A rated monoline bond insurance company. The municipalities that issued bonds we have securitized all are rated "A" or higher. The Company believes the likelihood it will be required to fund the reimbursement agreement obligation under any provision of the arrangement is probable as the value of the tender option bond trust certificates outstanding exceeds the value of securitized municipal tender option bonds by $3.4 million at December 31, 2008.

CONCENTRATION OF CREDIT RISK

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

The Company maintains counterparty credit exposure with six counterparties totaling $42.4 million at December 31, 2008. This counterparty credit exposure is part of our matched-book derivative program, consisting primarily of interest rate swaps. One counterparty represents $20.9 million in credit exposure. Credit exposure associated with our derivative counterparties is driven by uncollateralized market movements in the fair value of the contracts and is monitored regularly by our market and credit risk committee.

Note 17 Restructuring

The Company incurred a pre-tax restructuring-related expense of $17.9 million in 2008. The expense was incurred to restructure the Company's operations as a means to better align its cost infrastructure with its revenues. The Company determined restructuring charges and related accruals based on a specific formulated plan.

The components of this charge are shown below:

(Dollars in thousands)	
Severance and employee-related	$ 12,473
Lease terminations and asset write-downs	5,392
Total	$ 17,865

Severance and employee-related charges included the cost of severance, other benefits and outplacement costs associated with the termination of employees. The severance amounts were determined based on the Company's severance pay program in place at the time of termination. Approximately 230 employees received severance.

Lease terminations and asset write-downs represented costs associated with redundant office space and equipment disposed of as part of the restructuring plan. Payments related to terminated lease contracts continue through the original terms of the leases, which run for various periods, with the longest lease term running through 2016.

The Company incurred pre-tax restructuring costs of $60.7 million in 2006 in connection with the sale of the Company's PCS branch network to UBS. The expense was incurred upon implementation of a specific restructuring plan to reorganize the Company's support infrastructure as a result of the sale.

The components of this charge are shown below:

(Dollars in thousands)	
Severance and employee-related	$ 23,063
Lease terminations and asset write-downs	26,484
Contract termination costs	11,177
Total	$ 60,724

The restructuring charges included the cost of severance, benefits, outplacement costs and equity award accelerated vesting costs associated with the termination of employees. The severance amounts were determined based on a one-time severance benefit enhancement to the Company's existing severance pay program in place at the time of termination notification and were paid out over a benefit period of up to one year from the time of termination. Approximately 295 employees received a severance package. In addition, the Company incurred restructuring charges for contract termination costs related to the reduction of office space and the modification of technology contracts. Contract termination fees were determined based on the provisions of Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which requires the recognition of a liability for contract termination under a cease-use date concept. Payments related to terminated lease contracts continue through the original terms of the leases, which run for various periods, with the longest lease term running through 2016. The Company also incurred restructuring charges for the impairment or disposal of long-lived assets determined in accordance with SFAS 144. All restructuring costs related to the sale of the PCS branch network are included within discontinued operations in accordance with SFAS 144.

The following table presents a summary of activity with respect to the restructuring-related liabilities included within other liabilities and accrued expense on the statements of financial condition.

(Dollars in thousands)	2008 Restructure	PCS Restructure
Balance at December 31, 2005	**$ –**	**$ –**
Provision charged to discontinued operations	–	60,724
Cash outlays	–	(28,903)
Non-cash write-downs	–	(3,238)
Balance at December 31, 2006	**–**	**28,583**
Recovery of provision charged to discontinued operations	–	(118)
Cash outlays	–	(13,501)
Non-cash write-downs	–	(398)
Balance at December 31, 2007	**–**	**14,566**
Recovery of provision charged to discontinued operations	–	(176)
Provision charged to continuing operations	17,865	–
Cash outlays	(5,846)	(4,220)
Non-cash write-downs	(3,490)	(242)
Balance at December 31, 2008	**$ 8,529**	**$ 9,928**

Note 18 Shareholders' Equity

The certificate of incorporation of Piper Jaffray Companies provides for the issuance of up to 100,000,000 shares of common stock with a par value of $0.01 per share and up to 5,000,000 shares of undesignated preferred stock with a par value of $0.01 per share.

COMMON STOCK

The holders of Piper Jaffray Companies common stock are entitled to one vote per share on all matters to be voted upon by the shareholders. Subject to preferences that may be applicable to any outstanding preferred stock of Piper Jaffray Companies, the holders of its common stock are entitled to receive ratably such dividends, if any, as may be declared from time to time by the Piper Jaffray Companies board of directors out of fu nds legally available for that purpose. In the event that Piper Jaffray Companies is liquidated or dissolved, the holders of its common stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to any prior distribution rights of Piper Jaffray Companies preferred stock, if any, then outstanding. The holders of the common stock have no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to Piper Jaffray Companies common stock.

Piper Jaffray Companies does not intend to pay cash dividends on its common stock for the foreseeable future. Instead, Piper Jaffray Companies intends to retain all available funds and any future earnings for

use in the operation and expansion of its business and to repurchase outstanding common stock to the extent authorized by its board of directors. Additionally, as set forth in Note 23, there are dividend restrictions on Piper Jaffray.

During the year ended December 31, 2008, the Company issued 90,140 common shares out of treasury in fulfillment of $3.7 million in obligations under the Piper Jaffray Companies Retirement Plan ("Retirement Plan") and issued 372,384 common shares out of treasury as a result of vesting and exercise transactions under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan (the "Incentive Plan"). During the year ended December 31, 2007, the Company issued 8,619 common shares out of treasury in fulfillment of $0.6 million in obligations under the Retirement Plan. The Company also issued 253,050 common shares out of treasury as a result of vesting and exercise transactions under the Incentive Plan. During the year ended December 31, 2006, the Company reissued 190,966 common shares out of treasury in fulfillment of $9.0 million in obligations under the Retirement Plan. The Company also reissued 76,858 common shares out of treasury as a result of vesting and exercise transactions under the Incentive Plan.

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 year ended December 31, 2008, the Company repurchased 444,225 shares of the Company's common stock at an average price of $33.75 per share for an aggregate purchase price of $15.0 million. The Company has $85.0 million remaining under this authorization.

In the third quarter of 2006, the Company's board of directors authorized the repurchase of up to $180.0 million in common shares through December 31, 2007. The Company executed an accelerated stock repurchase under this authorization repurchasing 1.6 million shares of the Company's stock at an average price of $60.66 per share for an aggregate purchase price of $100 million during 2006. During the year ended December 31, 2007, the Company repurchased an additional 1.6 million shares of the Company's common stock at an average price of $50.28 per share for an aggregate purchase price of $80.0 million. This repurchase activity completed the $180.0 million share repurchase authorization.

PREFERRED STOCK

The Piper Jaffray Companies board of directors has the authority, without action by its shareholders, to designate and issue preferred stock in one or more series and to designate the rights, preferences and privileges of each series, which may be greater than the rights associated with the common stock. It is not possible to state the actual effect of the issuance of any shares of preferred stock upon the rights of holders of common stock until the Piper Jaffray Companies board of directors determines the specific rights of the holders of preferred stock. However, the effects might include, among other things, the following: restricting dividends on its common stock, diluting the voting power of its common stock, impairing the liquidation rights of its common stock and delaying or preventing a change in control of Piper Jaffray Companies without further action by its shareholders.

RIGHTS AGREEMENT

Piper Jaffray Companies has adopted a rights agreement. The issuance of a share of Piper Jaffray Companies common stock also constitutes the issuance of a preferred stock purchase right associated with such share. These rights are intended to have anti-takeover effects in that the existence of the rights may deter a potential acquirer from making a takeover proposal or a tender offer for Piper Jaffray Companies stock.

Note 19 Earnings Per Share

Basic earnings per common share is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per common share is calculated by adjusting the weighted average outstanding shares to assume conversion of all potentially dilutive restricted stock and stock options. The computation of earnings per share is as follows:

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YEAR ENDED DECEMBER 31, *(Amounts in thousands, except per share data)*	2008	2007	2006
		(Restated)	*(Restated)*
Net income/(loss)	**$ (182,975)**	$ 21,943	$ 195,425
Shares for basic and diluted calculations:			
Average shares used in basic computation	**15,837**	16,474	18,002
Stock options	**27**	104	89
Restricted stock	**2,334**	1,539	1,308
Average shares used in diluted computation	**18,198**	18,117	19,399
Earnings per share:			
Basic	**$ (11.55)**	$ 1.33	$ 10.86
Diluted	**$ (11.55)***(1)*	$ 1.21	$ 10.07

(1) In accordance with SFAS 128, earnings per diluted common share is calculated using the basic weighted average number of common shares outstanding in periods a loss is incurred.

The anti-dilutive effects from stock options or restricted stock was immaterial for the periods ended December 31, 2008, 2007 and 2006.

Note 20 Employee Benefit Plans

The Company has various employee benefit plans, and substantially all employees are covered by at least one plan. The plans include a tax-qualified retirement plan, a frozen non-qualified retirement plan, a post-retirement benefit plan, and health and welfare plans. During the years ended December 31, 2008, 2007 and 2006, the Company incurred employee benefit expenses from continuing operations of $11.8 million, $10.7 million and $9.4 million, respectively.

RETIREMENT PLAN

The Retirement Plan previously had two components: a defined contribution retirement savings plan and a tax-qualified, non-contributory profit-sharing plan. Effective January 1, 2007, the profit sharing component of the retirement plan was terminated. There were no profit sharing contributions made in 2007 or 2006.

The defined contribution retirement savings plan allows qualified employees, at their option, to make contributions through salary deductions under Section 401(k) of the Internal Revenue Code. Employee contributions are 100 percent matched by the Company to a maximum of 6 percent of recognized compensation up to the social security taxable wage base. Although the Company's matching contribution vests immediately, a participant must be employed on December 31 to receive that year's matching contribution. The matching contribution can be made in cash or Piper Jaffray Companies common stock, in the Company's discretion.

PENSION AND POST-RETIREMENT MEDICAL PLANS

Certain employees participate in the Piper Jaffray Companies Non-Qualified Retirement 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.

In 2006, the Company adopted the recognition and disclosure provisions of Statement of Financial Accounting Standard No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 123(R)" ("SFAS 158"). SFAS 158 requires the Company to recognize the funded status of its pension and post-retirement medical plans in the consolidated statements of financial condition with a corresponding adjustment to accumulated other comprehensive income, net of tax. The adjustment to accumulated other comprehensive income at adoption represented the net unrecognized actuarial losses and unrecognized prior service costs which were previously netted against each plan's funded status in the Company's consolidated statement of financial condition pursuant to the provisions of Statement of Financial Accounting Standard No. 87, "Employers' Accounting for Pensions" ("SFAS 87"). These amounts are amortized as a component of net periodic benefit cost. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic benefit cost in the same periods are recognized as a component of other comprehensive income. These amounts are amortized as a component of net periodic benefit cost on the same basis as the amounts recognized in accumulated other comprehensive income in accordance with SFAS 158. The adoption of SFAS 158 had no

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impact on the Company's pension benefit liabilities and an immaterial impact on the Company's post-retirement medical benefit liabilities in 2006.

In 2008, the Company adopted the measurement date provisions of SFAS 158. SFAS 158 requires the measurement date for plan assets and liabilities to coincide with the sponsor's year end. Prior to adoption, the Company used a September 30 measurement date for the pension and post-retirement benefit plans. The adoption of SFAS 158's measurement date provisions in 2008 did not have a material impact on the consolidated financial statements of the Company.

In 2008 and 2006, the Company paid out amounts under the pension plan that exceeded its service and interest cost. These payouts triggered settlement accounting under Statement of Financial Accounting Standard No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits" ("SFAS 88"), which resulted in recognition of pre-tax settlement losses of $0.1 million and $2.1 million in 2008 and 2006, respectively.

All employees of the Company who meet defined age and service requirements are eligible to receive post-retirement health care benefits provided under a post-retirement benefit plan established by the Company in 2004. The estimated cost of these retiree health care benefits is accrued during the employees' active service. In connection with the sale of the Company's PCS branch network in 2006, the Company recognized a $1.9 million curtailment gain within discontinued operations related to the reduction of post-retirement health plan participants.

Financial information on changes in benefit obligation, fair value of plan assets and the funded status of the pension and post-retirement benefit plans as of December 31, 2008, 2007 and 2006 is as follows:

	Pension Benefits			Post-Retirement Medical Benefits		
(Dollars in thousands)	**2008**	2007	2006	**2008**	2007	2006
Change in benefit obligation:						
Benefit obligation, at October 1 of prior year	**$ 12,239**	$ 11,817	$ 27,550	**$ 523**	$ 431	$ 2,012
Service cost	**–**	–	–	**83**	69	295
Interest cost	**932**	707	1,383	**38**	26	102
Plan participants' contributions	**–**	–	–	**190**	96	64
Net actuarial loss/(gain)	**77**	127	(172)	**(66)**	19	(155)
Curtailment gain	**–**	–	–	**–**	–	(1,750)
Settlement gain	**(133)**	–	(2,170)	**–**	–	–
Benefits paid	**(1,473)**	(412)	(14,774)	**(212)**	(118)	(137)
Benefit obligation at measurement date(1)	**$ 11,642**	$ 12,239	$ 11,817	**$ 556**	$ 523	$ 431
Change in plan assets:						
Fair value of plan assets at October 1 of prior year	**$ –**	$ –	$ –	**$ –**	$ –	$ –
Actual return on plan assets	**–**	–	–	**–**	–	–
Employer contributions	**1,473**	412	14,774	**22**	22	74
Plan participants' contributions	**–**	–	–	**190**	96	63
Benefits paid	**(1,473)**	(412)	(14,774)	**(212)**	(118)	(137)
Fair value of plan assets at measurement date(1)	**$ –**	$ –	$ –	**$ –**	$ –	$ –
Funded status at measurement date(1)	**$ (11,642)**	$ (12,239)	$ (11,817)	**$ (556)**	$ (523)	$ (431)
Employer fourth quarter contributions	**–**	(174)	(226)	**–**	(45)	(27)
Benefits paid in fourth quarter	**–**	19	809	**–**	40	54
Amounts recognized in the consolidated statements of financial condition	**$ (11,642)**	$ (12,394)	$ (11,234)	**$ (556)**	$ (528)	$ (404)
Components of accumulated other comprehensive (income)/loss, net of tax:						
Net actuarial loss	**$ 949**	$ 1,148	$ 980	**$ 14**	$ 57	$ 41
Prior service credits	**–**	–	–	**(30)**	(46)	(58)
Total at December 31	**$ 949**	$ 1,148	$ 980	**$ (16)**	$ 11	$ (17)

(1) Beginning in 2008, the measurement date is the last day of the year. In 2007 and 2006, the measurement date was September 30.

The components of the net periodic benefits costs for the years ended December 31, 2008, 2007 and 2006, are as follows:

	Pension Benefits			Post-Retirement Medical Benefits		
(Dollars in thousands)	**2008**	2007	2006	**2008**	2007	2006
Service cost	**$ –**	$ –	$ –	**$ 66**	$ 69	$ 295
Interest cost	**745**	707	1,383	**31**	26	102
Amortization of prior service credit	**–**	–	–	**(20)**	(20)	(58)
Amortization of net loss	**65**	42	376	**3**	2	2
Net periodic benefit cost	**$ 810**	$ 749	$ 1,759	**$ 80**	$ 77	$ 341
SFAS 88 event loss/(gain)	**178**	(328)	2,086	**–**	–	(1,947)
Total expense/(benefit) for the year	**$ 988**	$ 421	$ 3,845	**$ 80**	$ 77	$ (1,606)

Amortization expense of net actuarial losses expected to be recognized during 2009 is approximately $39,000 for the pension plan. In addition, the post-retirement medical plan expects to recognize a credit of $20,000 in 2009 for the amortization of prior service credits.

The assumptions used in the measurement of our benefit obligations are as follows:

	Pension Benefits			Post-Retirement Benefits		
	2008	2007	2006	**2008**	2007	2006
Discount rate used to determine year-end obligation	**6.50%**	6.50%	6.25%	**6.50%**	6.50%	6.25%
Discount rate used to determine fiscal year expense	**6.50%**	6.25%	5.87%	**6.50%**	6.25%	5.87%
Expected long-term rate of return on participant balances	**6.50%**	6.50%	6.50%	**N/A**	N/A	N/A
Rate of compensation increase	**N/A**	N/A	N/A	**N/A**	N/A	N/A

	2008	2007	2006
Health care cost trend rate assumed for next year (pre-medicare/post-medicare)	**7.0%/8.0%**	7.5%/9.0%	8.0%/10.0%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate) (pre-medicare/post-medicare)	**5.0%/5.0%**	5.0%/5.0%	5.0%/5.0%
Year that the rate reaches the ultimate trend rate (pre-medicare/post-medicare)	**2012/2013**	2012/2013	2012/2013

A one-percentage-point change in the assumed health care cost trend rates would not have a material effect on the Company’s post-retirement benefit obligations or net periodic post-retirement benefit cost. The pension plan and post-retirement medical plan do not have assets and are not funded. Pension and post-retirement benefit payments, which reflect expected future service, are expected to be paid as follows:

(Dollars in thousands)	Pension Benefits	Post-Retirement Benefits
2009	$ 1,002	$ 102
2010	934	64
2011	893	46
2012	925	50
2013	884	57
2014 to 2018	4,331	422
	$ 8,969	$ 741

HEALTH AND WELFARE PLANS

Company employees who meet certain work schedule and service requirements are eligible to participate in the Company’s health and welfare plans. The Company subsidizes the cost of coverage for employees. The medical plan contains cost-sharing features such as deductibles and coinsurance.

Note 21 Stock-Based Compensation and Cash Award Program

The Company maintains one stock-based compensation plan, the Incentive Plan. The 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 5.5 million shares of common stock. The Company periodically grants shares of restricted stock and options to purchase Piper Jaffray Companies common stock to employees and grants options to purchase Piper Jaffray Companies common stock and shares of Piper Jaffray Companies common stock to its 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 have the following vesting periods: approximately 78 percent of the awards have three-year cliff vesting periods, approximately 14 percent of the awards vest ratably from 2010 through 2013 on the annual grant date anniversary, and approximately 8 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 maximum term of the stock options granted to employees and directors is ten years. 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.

Prior to January 1, 2006, the Company accounted for stock-based compensation under the fair value method of accounting as prescribed by SFAS 123, as amended by SFAS 148. As such, the Company recorded stock-based compensation expense in the consolidated statements of operations at fair value, net of estimated forfeitures.

Effective January 1, 2006, the Company adopted the provisions of SFAS 123(R) using the modified prospective transition method. SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the statements of operations at fair value over the service period of the award, net of estimated forfeitures.

Employee and director stock options granted prior to January 1, 2006, were expensed by the Company on a straight-line basis over the option vesting period, based on the estimated fair value of the award on the date of grant using a Black-Scholes option-pricing model. Employee and director stock options granted after January 1, 2006, are 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. At the time it adopted SFAS 123(R), the Company changed the expensing period from the vesting period to the required service period, which shortened the period over which options are expensed for employees who are retiree-eligible on the date of grant or become retiree-eligible during the vesting period. The number of employees that fell within this category at January 1, 2006, was not material. In accordance with SEC guidelines, the Company did not alter the expense recorded in connection with prior option grants for the change in the expensing period.

Employee restricted stock granted are valued at the market price of the Company's common stock on the date of grant. Employee restricted stock granted prior to January 1, 2006, are amortized on a straight-line basis over the vesting period. Restricted stock granted after January 1, 2006, 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 SFAS 123(R). Accordingly, such restricted stock grants are 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.

Performance-based restricted stock awards granted in 2008 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 conditions will be achieved and that the awards will vest is reevaluated each reporting period with changes in actual or estimated outcomes accounted for using a cumulative effect adjustment.

The Company recorded compensation expense within continuing operations of $26.6 million, $64.6 million and $86.5 million for the years ended December 31, 2008, 2007 and 2006, respectively, related to employee restricted stock and stock option grants and $0.3 million in outside services expense related to director stock option grants for 2006. The tax benefit related to the total compensation cost for stock-based compensation arrangements totaled $10.2 million, $24.8 million and $33.2 million for the years ended December 31, 2008, 2007 and 2006, respectively.

In accordance with SFAS 123(R), if any equity award is cancelled 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 cancellation is recorded within the consolidated statements of operations as other income. The Company recorded $6.1 million, $5.5 million and $2.1 million of cancellations for the years ended December 31, 2008, 2007 and 2006, respectively.

In connection with the sale of the Company's PCS branch network, the Company undertook a plan to significantly restructure the Company's support infrastructure. The Company accelerated the equity award vesting for employees terminated as part of this restructuring. The acceleration of equity awards was deemed to be a modification of the awards as defined by SFAS 123(R). For the year ended December 31, 2006, the Company recorded $2.7 million of expense in discontinued operations related to the modification of equity awards to accelerate service vesting. Unvested equity awards related to employees transferring to UBS as part of the PCS sale were canceled. See Notes 4 and 17 for further discussion of the Company's discontinued operations and restructuring activities.

The fair value of each stock option is estimated on the date of grant using the Black-Scholes option-pricing model, which is based on assumptions such as the risk-free interest rate, the dividend yield, the expected volatility and the expected life of the option. The risk-free interest rate assumption is derived from the U.S. treasury bill rate with a maturity equal to the expected life of the option. The dividend yield assumption is derived from the assumed dividend payout over the expected life of the option. The expected volatility assumption for 2008 grants is derived from a combination of Company historical data and industry comparisons. The Company has only been a publicly traded company since the beginning of 2004; therefore, it does not have sufficient historical data to determine an appropriate expected volatility solely from the Company's own historical data. The expected life assumption is based on an average of the following two factors: 1) industry comparisons; and 2) the guidance provided by the SEC in Staff Accounting Bulletin No. 110, ("SAB 110"). SAB 110 allows the use of an "acceptable" methodology under which the Company can take the midpoint of the vesting date and the full contractual term. The following table provides a summary of the valuation assumptions used by the Company to determine the estimated value of stock option grants in Piper Jaffray Companies common stock for the twelve months ended December 31:

Weighted average assumptions in option valuation:	**2008**	2007	2006*(1)*
Risk-free interest rates	**3.03%**	4.68%	4.64%
Dividend yield	**0.00%**	0.00%	0.00%
Stock volatility factor	**33.61%**	32.20%	39.35%
Expected life of options (in years)	**6.00**	6.00	5.53
Weighted average fair value of options granted	**$ 15.73**	$ 28.57	$ 22.92

(1) 2006 weighted average assumptions exclude the assumptions utilized in equity award modifications related to the sale of the Company's PCS branch network to aid comparability between years.

The following table summarizes the changes in the Company's outstanding stock options for the years ended December 31, 2008, 2007 and 2006:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
December 31, 2005	**643,032**	**$ 42.29**	**8.7**	**$ –**
Granted	50,560	53.16		
Exercised	(31,562)	41.64		
Canceled	(151,849)	42.82		
December 31, 2006	**510,181**	**$ 43.25**	**7.8**	**$ 11,172,964**
Granted	35,641	70.13		
Exercised	(51,170)	46.92		
Canceled	(23,937)	41.09		
December 31, 2007	**470,715**	**$ 44.99**	**7.1**	**$ 1,988,641**
Granted	128,887	41.09		
Exercised	(899)	39.62		
Canceled	(29,324)	42.04		
December 31, 2008	**569,379**	**$ 44.27**	**6.7**	**$ 322,749**
Options exercisable at December 31, 2006	**59,623**	**$ 44.16**	**7.9**	**$ 1,251,487**
Options exercisable at December 31, 2007	**182,120**	**$ 46.32**	**6.5**	**$ 474,294**
Options exercisable at December 31, 2008	**377,999**	**$ 42.66**	**5.8**	**$ 322,749**

Additional information regarding Piper Jaffray Companies options outstanding as of December 31, 2008 is as follows:

	Options Outstanding			Exercisable Options	
Range of Exercise Prices	Shares	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
$28.01	22,852	6.3	$ 28.01	22,852	$ 28.01
$33.40	4,001	6.6	$ 33.40	4,001	$ 33.40
$39.62	205,655	6.0	$ 39.62	205,655	$ 39.62
$41.09	128,887	9.1	$ 41.09	–	–
$47.30 – $51.05	160,571	5.4	$ 47.69	133,719	$ 47.66
$70.13 – $70.65	47,413	7.9	$ 70.26	11,772	$ 70.65

As of December 31, 2008, there was approximately $25,000 of total unrecognized compensation cost related to stock options expected to be recognized over a weighted average period of 0.14 years.

Cash received from option exercises for the years ended December 31, 2008, 2007 and 2006 were $0.04 million, $2.4 million and $1.3, respectively. The fair value of options exercised during the years ended December 31, 2008, 2007 and 2006 were $0.02 million, $1.1 million and $0.5 million. The tax benefit realized for the tax deduction from option exercises totaled $0.01 million, $0.4 million and $0.3 for the years ended December 31, 2008, 2007 and 2006, respectively.

The following table summarizes the changes in the Company's non-vested restricted stock for the years ended December 31, 2008, 2007 and 2006:

	Nonvested Restricted Stock	Weighted Average Grant Date Fair Value
December 31, 2005	**1,417,444**	**$ 41.37**
Granted	847,669	48.35
Vested	(68,940)	45.03
Canceled	(639,372)	44.28
December 31, 2006	**1,556,801**	**$ 43.81**
Granted	793,948	66.08
Vested	(314,905)	48.70
Canceled	(207,875)	50.05
December 31, 2007	**1,827,969**	**$ 51.93**
Granted	2,151,449	40.23
Vested	(585,419)	37.46
Canceled	(216,054)	49.03
December 31, 2008	**3,177,945**	**$ 46.87**

The fair value of restricted stock vested during the years ended December 31, 2008, 2007 and 2006 were $21.9 million, $15.3 million and $3.1 million.

As of December 31, 2008, there was $30.7 million of total unrecognized compensation cost related to restricted stock expected to be recognized over a weighted average period of 3.49 years.

The Company has a policy of issuing shares out of treasury (to the extent available) to satisfy share option exercises and restricted stock vesting. The Company expects to withhold approximately 0.1 million shares from employee equity awards vesting in 2009, related to the payment of individual income tax on restricted stock vesting. For accounting purposes, withholding shares to cover employees' tax obligations is deemed to be a repurchase of shares by the Company.

In connection with the Company's spin-off from U.S. Bancorp on December 31, 2003, the Company established a cash award program pursuant to which it granted cash awards to a broad-based group of employees to aid in retention of employees and to compensate employees for the value of U.S. Bancorp stock options and restricted stock lost by employees. The cash awards were expensed over a four-year period ending December 31, 2007.

Note 22 Geographic Areas

The following table presents net revenues and long-lived assets by geographic region:

FOR THE YEAR ENDED DECEMBER 31, *(Dollars in thousands)*	**2008**	2007	2006
		(Restated)	*(Restated)*
Net revenues:			
United States	**$ 283,093**	$ 436,620	$ 468,263
Europe	**26,554**	37,429	31,343
Asia	**16,750**	30,329	5,442
Consolidated	**$ 326,397**	$ 504,378	$ 505,048

YEAR ENDED DECEMBER 31, (Dollars in thousands)	2008	2007 (Restated)	2006 (Restated)
Long-lived assets:			
United States	**$ 269,862**	$ 384,084	321,514
Europe	**1,290**	3,541	3,441
Asia	**11,408**	20,080	236
Consolidated	**$ 282,560**	$ 407,705	$ 325,191

Note 23 Net Capital Requirements and Other Regulatory Matters

Piper Jaffray is registered as a securities broker dealer and an investment advisor with the SEC and is a member of various self regulatory organizations ("SROs") and securities exchanges. In July of 2007, the National Association of Securities Dealers, Inc. ("NASD") and the member regulation, enforcement and arbitration functions of the New York Stock Exchange ("NYSE") consolidated to form the Financial Industry Regulatory Authority ("FINRA"), which now serves as Piper Jaffray' 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 the FINRA 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 debt, dividend payments and other equity withdrawals by Piper Jaffray are subject to certain notification and other provisions of the SEC and FINRA rules. In addition, Piper Jaffray is subject to certain notification requirements related to withdrawals of excess net capital.

At December 31, 2008, net capital calculated under the SEC rule was $210.5 million, and exceeded the minimum net capital required under the SEC rule by $209.5 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 December 31, 2008, Piper Jaffray Ltd. was in compliance with the capital requirements of the FSA.

Piper Jaffray Asia Holdings Limited operates four 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 December 31, 2008, Piper Jaffray Asia regulated entities were in compliance with the liquid capital requirements of the Hong Kong Securities and Futures Ordinance.

Note 24 Income Taxes

Income tax expense is provided using the asset and liability method. Deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to temporary differences between amounts reported for income tax purposes and financial statement purposes, using current tax rates.

The components of income tax expense from continuing operations are as follows:

YEAR ENDED DECEMBER 31, *(Dollars in thousands)*	2008	2007	2006
		(Restated)	*(Restated)*
Current:			
Federal	**$ (33,467)**	$ 13,309	$ 25,270
State	**–**	2,594	4,560
Foreign	**–**	1,668	615
	(33,467)	17,571	30,445
Deferred:			
Federal	**(374)**	(9,806)	(17,839)
State	**(4,152)**	(1,536)	(2,776)
Foreign	**(2,140)**	(439)	380
	(6,666)	(11,781)	(20,235)
Total income tax/(benefit) expense	**$ (40,133)**	$ 5,790	$ 10,210

A reconciliation of the statutory federal income tax rates to the Company's effective tax rates for the fiscal years ended December 31, is as follows:

(Dollars in thousands)	2008	2007	2006
		(Restated)	*(Restated)*
Federal income tax at statutory rates	**$ (78,262)**	$ 10,650	$ 11,672
Increase/(reduction) in taxes resulting from:			
State income taxes, net of federal tax benefit	**(2,699)**	589	1,160
Net tax-exempt interest income	**(7,958)**	(5,033)	(3,947)
Goodwill impairment	**42,580**	–	–
Other, net	**6,206**	(416)	1,325
Total income tax/(benefit) expense	**$ (40,133)**	$ 5,790	$ 10,210

Income taxes from discontinued operations were $0.3 million expense, $2.4 million benefit and $160.7 million expense for the years ended December 31, 2008, 2007 and 2006, respectively.

In accordance with Accounting Principles Bulletin 23, "Accounting for Income Taxes-Special Areas," U.S. income taxes are not provided on undistributed earnings of international subsidiaries that are permanently reinvested. As of December 31, 2008, undistributed earnings permanently reinvested in the Company's foreign subsidiaries was not material.

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

(Dollars in thousands)	2008	2007 (Restated)	2006 (Restated)
Deferred tax assets:			
Liabilities/accruals not currently deductible	**$ 10,697**	$ 10,444	$ 17,351
Pension and retirement costs	**4,721**	4,959	5,201
Deferred compensation	**60,790**	61,945	47,379
Other	**16,218**	6,492	3,335
Total deferred tax assets	**92,426**	83,840	73,266
Valuation allowance	**(2,630)**	–	–
Deferred tax assets after valuation allowance	**89,796**	83,840	73,266
Deferred tax liabilities:			
Firm investments	**104**	795	1,228
Fixed assets	**316**	1,314	4,672
Other	**1,956**	135	498
Total deferred tax liabilities	**2,376**	2,244	6,398
Net deferred tax asset	**$ 87,420**	$ 81,596	$ 66,868

The realization of deferred tax assets is assessed and a valuation allowance is recorded to the extent that it is more likely than not that any portion of the deferred tax asset will not be realized. The Company believes that its future tax profits will be sufficient to recognize its U.S. deferred tax assets. The Company has recorded a deferred tax asset valuation allowance of $2.6 million related to foreign subsidiary net operating loss carryforwards.

The Company adopted the provisions of FIN 48 on January 1, 2007. Implementation of FIN 48 resulted in no adjustment to the Company's liability for unrecognized tax benefits. As of the date of adoption the total amount of unrecognized tax benefits was $1.1 million. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

(Dollars in thousands)	
Balance at January 1, 2007	**$ 1,100**
Additions based on tax positions related to the current year	–
Additions for tax positions of prior years	9,400
Reductions for tax positions of prior years	–
Settlements	–
Balance at December 31, 2007	**10,500**
Additions based on tax positions related to the current year	–
Additions for tax positions of prior years	–
Reductions for tax positions of prior years	(300)
Settlements	–
Balance at December 31, 2008	**$ 10,200**

Approximately $7.4 million of the Company's unrecognized tax benefits would impact the annual effective tax rate if recognized. Included in the total liability for unrecognized tax benefits is $1.0 million of interest and penalties, both of which the Company recognizes as a component of income tax expense. The Company or one of its subsidiaries file income tax returns with the U.S. federal jurisdiction, all states, and various foreign jurisdictions. The Company is not subject to U.S. federal, state and local or non-U.S. income tax examination by tax authorities for taxable years before 2005. The Company does not currently anticipate a change in the Company's unrecognized tax benefits balance within the next twelve months for the expiration of various statutes of limitation or for resolution of U.S. federal and state examinations.

SUPPLEMENTAL INFORMATION

Quarterly Information (unaudited)

2008 FISCAL QUARTER

(Amounts in thousands, except per share data)	First *(As Reported)*	First *(Adjustments)*	First *(Restated)(2)*	Second *(As Reported)*	Second *(Adjustments)*	Second *(Restated)(2)*
Total revenues	$ 102,609	$ 16	$ 102,625	$ 100,731	$ 2,816	$ 103,547
Interest expense	6,878	–	6,878	5,826	–	5,826
Net revenues	95,731	16	95,747	94,905	2,816	97,721
Non-interest expenses	100,141	(3,305)	96,836	109,201	(4,191)	105,010
Loss from continuing operations before income tax benefit	(4,410)	3,321	(1,089)	(14,296)	7,007	(7,289)
Income tax benefit	(973)	1,278	305	(9,223)	3,447	(5,776)
Net loss from continuing operations	(3,437)	2,043	(1,394)	(5,073)	3,560	(1,513)
Income/(loss) from discontinued operations, net of tax	–	–	–	1,439	–	1,439
Net loss	$ (3,437)	$ 2,043	$ (1,394)	$ (3,634)	$ 3,560	$ (74)
Earnings per basic common share						
Loss from continuing operations	$ (0.22)		$ (0.09)	$ (0.32)		$ (0.09)
Income/(loss) from discontinued operations	–		–	0.09		0.09
Earnings per basic common share	$ (0.22)		$ (0.09)	$ (0.23)		$ (0.00)
Earnings per diluted common share						
Loss from continuing operations	$ (0.22)		$ (0.09)	$ (0.32)		$ (0.09)
Income/(loss) from discontinued operations	–		–	0.09		0.09
Earnings per diluted common share(1)	$ (0.22)		$ (0.09)	$ (0.23)		$ (0.00)
Weighted average number of common shares						
Basic	15,829		15,829	16,072		16,072
Diluted	16,634		17,997	16,709		18,570

(Amounts in thousands, except per share data)	Third *(As Reported)*	Third *(Adjustments)*	Third *(Restated)(2)*	Fourth
Total revenues	$ 75,857	$ 810	$ 76,667	$ 62,213
Interest expense	3,148	–	3,148	2,803
Net revenues	72,709	810	73,519	59,410
Non-interest expenses	117,823	2,398	120,221	227,937
Loss from continuing operations before income tax benefit	(45,114)	(1,588)	(46,702)	(168,527)
Income tax benefit	(18,603)	(563)	(19,166)	(15,496)
Net loss from continuing operations	(26,511)	(1,025)	(27,536)	(153,031)
Income/(loss) from discontinued operations, net of tax	(653)	–	(653)	(287)
Net loss	$ (27,164)	$ (1,025)	$ (28,189)	$ (153,318)
Earnings per basic common share				
Loss from continuing operations	$ (1.68)		$ (1.75)	$ (9.76)
Income/(loss) from discontinued operations	(0.04)		(0.04)	(0.02)
Earnings per basic common share	$ (1.72)		$ (1.79)	$ (9.78)
Earnings per diluted common share				
Loss from continuing operations	$ (1.68)		$ (1.75)	$ (9.76)
Income/(loss) from discontinued operations	(0.04)		(0.04)	(0.02)
Earnings per diluted common share(1)	$ (1.72)		$ (1.79)	$ (9.78)
Weighted average number of common shares				
Basic	15,772		15,772	15,676
Diluted	16,628		18,157	18,072

(1) In accordance with SFAS 128, earnings per diluted common shares is calculated using the basic weighted average number of common shares outstanding in periods a loss is incurred.
(2) Financial information for the first three quarters of 2008 was restated as disclosed in Note 1 to the consolidated financial statements.

Piper Jaffray Companies

2007 FISCAL QUARTER

(Amounts in thousands, except per share data)	First	First	First	Second	Second	Second
	(As Reported)	*(Adjustments)*	*(Restated)(1)*	*(As Reported)*	*(Adjustments)*	*(Restated)(1)*
Total revenues	$ 143,652	$ 227	$ 143,879	$ 126,993	$ 3,190	$ 130,183
Interest expense	6,702	–	6,702	4,417	–	4,417
Net revenues	136,950	227	137,177	122,576	3,190	125,766
Non-interest expenses	114,366	12,682	127,048	107,425	7,556	114,981
Income from continuing operations before income tax expense/(benefit)	22,584	(12,455)	10,129	15,151	(4,366)	10,785
Income tax expense/(benefit)	7,862	(4,780)	3,082	4,774	(1,520)	3,254
Net income from continuing operations	14,722	(7,675)	7,047	10,377	(2,846)	7,531
Loss from discontinued operations, net of tax	(1,304)	94	(1,210)	(1,051)	21	(1,030)
Net income	$ 13,418	$ (7,581)	$ 5,837	$ 9,326	$ (2,825)	$ 6,501
Earnings per basic common share						
Income from continuing operations	$ 0.86		$ 0.41	$ 0.61		$ 0.44
Loss from discontinued operations	(0.08)		(0.07)	(0.06)		(0.06)
Earnings per basic common share	$ 0.79		$ 0.34	$ 0.55		$ 0.38
Earnings per diluted common share						
Income from continuing operations	$ 0.82		$ 0.38	$ 0.58		$ 0.40
Loss from discontinued operations	(0.07)		(0.07)	(0.06)		(0.05)
Earnings per diluted common share	$ 0.74		$ 0.31	$ 0.52		$ 0.35
Weighted average number of common shares						
Basic	17,071		17,071	17,073		17,073
Diluted	18,018		18,592	17,919		18,752

(Amounts in thousands, except per share data)	Third	Third	Third	Fourth	Fourth	Fourth
	(As Reported)	*(Adjustments)*	*(Restated)(1)*	*(As Reported)*	*(Adjustments)*	*(Restated)(1)*
Total revenues	$ 98,541	$ 664	$ 99,205	$ 153,425	$ 1,375	$ 154,800
Interest expense	5,647	–	5,647	6,923	–	6,923
Net revenues	92,894	664	93,558	146,502	1,375	147,877
Non-interest expenses	86,860	2,583	89,443	127,357	15,120	142,477
Income from continuing operations before income tax expense/(benefit)	6,034	(1,919)	4,115	19,145	(13,745)	5,400
Income tax expense/(benefit)	1,222	(674)	548	4,029	(5,123)	(1,094)
Net income from continuing operations	4,812	(1,245)	3,567	15,116	(8,622)	6,494
Loss from discontinued operations, net of tax	(456)	–	(456)	–	–	–
Net income	$ 4,356	$ (1,245)	$ 3,111	$ 15,116	$ (8,622)	$ 6,494
Earnings per basic common share						
Income from continuing operations	$ 0.30		$ 0.22	$ 0.97		$ 0.41
Loss from discontinued operations	(0.03)		(0.03)	–		–
Earnings per basic common share	$ 0.27		$ 0.19	$ 0.97		$ 0.41
Earnings per diluted common share						
Income from continuing operations	$ 0.28		$ 0.20	$ 0.91		$ 0.37
Loss from discontinued operations	(0.03)		(0.03)	–		–
Earnings per diluted common share	$ 0.26		$ 0.18	$ 0.91		$ 0.37
Weighted average number of common shares						
Basic	16,096		16,096	15,663		15,663
Diluted	16,904		17,751	16,587		17,381

(1) Financial information for 2007 was restated as disclosed in Note 1 to the consolidated financial statements.

2006 FISCAL QUARTER *(Amounts in thousands, except per share data)*	First *(As Reported)*	First *(Adjustments)*	First *(Restated)*(4)	Second *(As Reported)*	Second *(Adjustments)*	Second *(Restated)*(4)
Total revenues	$ 143,112	$ –	$ 143,112	$ 114,393	$ 635	$ 115,028
Interest expense	8,153	–	8,153	9,143	–	9,143
Net revenues	134,959	–	134,959	105,250	635	105,885
Non-interest expenses	106,274	37,673	143,947	93,091	5,687	98,778
Income/(loss) from continuing operations before income tax expense/(benefit)	28,685	(37,673)	(8,988)	12,159	(5,052)	7,107
Income tax expense/(benefit)	9,979	(14,459)	(4,480)	4,230	(1,939)	2,291
Net income/(loss) from continuing operations	18,706	(23,214)	(4,508)	7,929	(3,113)	4,816
Income/(loss) from discontinued operations, net of tax	5,151	(6,977)	(1,826)	(3,792)	724	(3,068)
Net income/(loss)	$ 23,857	$ (30,191)	$ (6,334)	$ 4,137	$ (2,389)	$ 1,748
Earnings per basic common share						
Income/(loss) from continuing operations	$ 1.01		$ (0.24)	$ 0.43		$ 0.26
Income/(loss) from discontinued operations	0.28		(0.10)	(0.20)		(0.17)
Earnings per basic common share	$ 1.29		$ (0.34)	$ 0.22		$ 0.09
Earnings per diluted common share						
Income/(loss) from continuing operations	$ 0.98		$ (0.24)	$ 0.40		$ 0.24
Income/(loss) from discontinued operations	0.27		(0.10)	(0.19)		(0.15)
Earnings per diluted common share	$ 1.25		$ (0.34)(1)	$ 0.21		$ 0.09
Weighted average number of common shares						
Basic	18,462		18,462	18,556		18,556
Diluted	19,146		19,490	19,669		20,230

(Amounts in thousands except per share data)	Third *(As Reported)*	Third *(Adjustments)*	Third *(Restated)*(4)	Fourth *(As Reported)*	Fourth *(Adjustments)*	Fourth *(Restated)*(4)
Total revenues	$ 124,597	$ 699	$ 125,296	$ 153,135	$ 780	$ 153,915
Interest expense	8,490	–	8,490	6,517	–	6,517
Net revenues	116,107	699	116,806	146,618	780	147,398
Non-interest expenses	101,058	8,583	109,641	104,638	14,696	119,334(3)
Income/(loss) from continuing operations before income tax expense/(benefit)	15,049	(7,884)	7,165	41,980	(13,916)	28,064
Income tax expense/(benefit)	5,521	(3,026)	2,495	15,244	(5,340)	9,904
Net income/(loss) from continuing operations	9,528	(4,858)	4,670	26,736	(8,576)	18,160(3)
Income/(loss) from discontinued operations, net of tax	177,085	6,011	183,096(2)	(6,090)	175	(5,915)
Net income/(loss)	$ 186,613	$ 1,153	$ 187,766	$ 20,646	$ (8,401)	$ 12,245
Earnings per basic common share						
Income/(loss) from continuing operations	$ 0.53		$ 0.26	$ 1.58		$ 1.07(3)
Income/(loss) from discontinued operations	9.82		10.15(2)	(0.36)		(0.35)
Earnings per basic common share	$ 10.35		$ 10.41	$ 1.22		$ 0.72
Earnings per diluted common share						
Income/(loss) from continuing operations	$ 0.50		$ 0.24	$ 1.49		$ 0.99(3)
Income/(loss) from discontinued operations	9.29		9.36(2)	(0.34)		(0.32)
Earnings per diluted common share	$ 9.79		$ 9.60	$ 1.15		$ 0.67
Weighted average number of common shares						
Basic	18,031		18,031	16,973		16,973
Diluted	19,071		19,569	18,004		18,322

(1) In accordance with SFAS 128, earnings per diluted common shares is calculated using the basic weighted average number of common shares outstanding in periods a loss is incurred.

(2) The third quarter of 2006 included the gain on the sale of the Company's PCS branch network.

(3) The fourth quarter of 2006 included an after tax reduction of litigation reserves of $13,100 or $0.73 per diluted share.

(4) Financial information for 2006 was restated as disclosed in Note 1 to the consolidated financial statements.

Market for Piper Jaffray Companies Common Stock and Related Shareholder Matters

STOCK PRICE INFORMATION

Our common stock is listed on the New York Stock Exchange under the symbol "PJC." The following table contains historical quarterly price information for the years ended December 31, 2008, 2007 and 2006. On February 20, 2009, the last reported sale price of our common stock was $26.86.

2008 FISCAL YEAR	High	Low
First Quarter	$ 49.00	$ 32.71
Second Quarter	41.50	29.33
Third Quarter	43.50	25.94
Fourth Quarter	42.92	25.06

2007 FISCAL YEAR	High	Low
First Quarter	$ 74.30	$ 58.53
Second Quarter	68.12	55.26
Third Quarter	59.46	44.24
Fourth Quarter	58.76	41.44

2006 FISCAL YEAR	High	Low
First Quarter	$ 55.40	$ 38.74
Second Quarter	74.65	53.18
Third Quarter	66.80	46.60
Fourth Quarter	71.61	58.80

SHAREHOLDERS

We had 19,488 shareholders of record and approximately 54,000 beneficial owners of our common stock as of February 20, 2009.

DIVIDENDS

We do not intend to pay cash dividends on our common stock for the foreseeable future. Our board of directors is free to change our dividend policy at any time. Restrictions on our broker dealer subsidiary's ability to pay dividends are described in Note 23 to the consolidated financial statements.

Stock Performance Graph

The following graph compares the performance of an investment in our common stock from January 2, 2004, the date our common stock began regular-way trading on the New York Stock Exchange following our spin-off from U.S. Bancorp, with the S&P 500 Index and the S&P 500 Diversified Financials Index. The graph assumes $100 was invested on January 2, 2004, in each of our common stock, the S&P 500 Index and the S&P 500 Diversified Financials Index and that all dividends were reinvested on the date of payment without payment of any commissions. Dollar amounts in the graph are rounded to the nearest whole dollar. Based on these assumptions, the cumulative total return for 2008 would have been $92.47 for our common stock, $89.80 for the S&P 500 Index and $49.75 for the S&P 500 Diversified Financials Index. For 2007, the cumulative total return would have been $107.72 for our common stock, $142.54 for the S&P 500 Index and $120.24 for the S&P 500 Diversified Financials Index. For 2006, the cumulative total return would have been $151.51 for our common stock, $135.12 for the S&P 500 Index and $147.74 for the S&P 500 Diversified Financials Index. For 2005, the cumulative total return would have been $93.95 for our common stock, $116.69 for the S&P 500 Index and $119.24 for the S&P 500 Diversified Financials Index. For 2004, the cumulative total return would have been $111.51 for our common stock, $111.23 for the S&P 500 Index and $108.59 for the S&P 500 Diversified Financials Index. The performance shown in the graph represents past performance and should not be considered an indication of future performance.

CUMULATIVE TOTAL RETURN FOR PIPER JAFFRAY COMMON STOCK, THE S&P 500 INDEX AND THE S&P DIVERSIFIED FINANCIALS INDEX

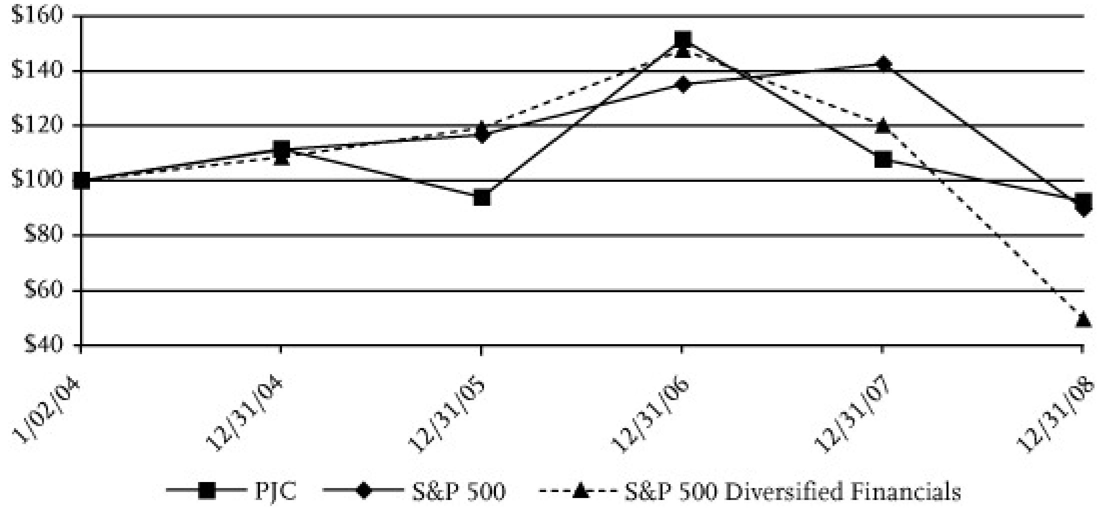

Exhibit 21.1

SUBSIDIARIES OF PIPER JAFFRAY COMPANIES
(as of February 5, 2009)

Name*	State or Jurisdiction of Entity
Piper Jaffray & Co.	Delaware
PJI Arizona, Inc.	Arizona
Piper Jaffray Ltd.	United Kingdom
PJC Nominees Ltd.	United Kingdom
Piper Jaffray Financial Products Inc.	Delaware
Piper Jaffray Financial Products II Inc.	Delaware
Piper Jaffray Financial Products III Inc.	Delaware
Piper Jaffray Funding LLC	Delaware
Piper Jaffray Lending LLC	Delaware
Piper Jaffray Private Capital Inc.	Delaware
Piper Jaffray Private Capital LLC	Delaware
Piper Jaffray Private Equity Funds Group I, LLC	Delaware
Piper Jaffray Ventures Inc.	Delaware
Piper Ventures Capital Inc.	Delaware
PJC Capital LLC	Delaware
Piper Jaffray Foundation	Delaware
Piper Jaffray Investment Management Inc.	Delaware
Piper Jaffray Investment Management LLC	Delaware
Fiduciary Asset Management, LLC	Missouri
Piper Jaffray MENA (LP) Inc.	Delaware
PJC Consumer Partners Acquisition I, LLC	Delaware
PJC Capital Management LLC	Delaware
Piper Jaffray Green Fund LLC	Delaware
PJC Merchant Banking Partners I, LLC	Delaware
Piper Jaffray Asia Holdings Limited	Hong Kong

Name*	State or Jurisdiction of Entity
Piper Jaffray Asia Limited	Hong Kong
Piper Jaffray Asia Securities Limited	Hong Kong
Piper Jaffray Asia Futures Limited	Hong Kong
Piper Jaffray Asia Management Services Limited	Hong Kong
Piper Jaffray Value Creation Fund	Cayman Islands
Piper Jaffray Asia Asset Management Limited	Hong Kong
Goldbond Fund Management (Cayman) Limited	Cayman Islands
Grandward Investments Limited	Hong Kong
Goldbond Capital (China) Limited	Hong Kong
Goldbond Hualu Investment Consultants Limited	Hong Kong

* Indentation indicates the principal parent of each subsidiary.

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Piper Jaffray Companies (the Company) of our reports dated February 27, 2009, with respect to the consolidated financial statements of the Company and the effectiveness of internal control over financial reporting of the Company, included in the 2008 Annual Report to Shareholders of the Company.

We consent to the incorporation by reference in the following Registration Statements:

1. Registration Statement (Form S-8 No. 333-111665) of the Company dated December 31, 2003,
2. Registration Statement (Form S-8 No. 333-112384) of the Company dated January 30, 2004,
3. Registration Statement (Form S-8 No. 333-122494) of the Company dated February 2, 2005, and
4. Registration Statement (Form S-8 No. 333-142699) of the Company dated May 8, 2007,
5. Registration Statement (Form S-8 No. 333-150962) of the Company dated May 16, 2008,

of our reports dated February 27, 2009, with respect to the consolidated financial statements of the Company and the effectiveness of internal control over financial reporting of the Company, incorporated herein by reference, and our report dated February 27, 2009, with respect to the financial statement schedule of the Company included in item 15(a) of this Form 10-K.

Minneapolis, Minnesota
February 27, 2009

Exhibit 24.1

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Andrew S. Duff, Debbra L. Schoneman and James L. Chosy, and each of them, his or her true and lawful attorneys-in-fact and agents, each acting alone, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign the Annual Report on Form 10-K of Piper Jaffray Companies (the "Company") for the Company's fiscal year ended December 31, 2008, and any or all amendments to said Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, and to file the same with such other authorities as necessary, granting unto each such attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that each such attorney-in-fact and agent, or his substitute, may lawfully do or cause to be done by virtue hereof.

Dated and effective as of the 23rd of February, 2009.

/s/ Andrew S. Duff	/s/ Addison L. Piper
Andrew S. Duff, Chairman and Chief Executive Officer	Addison L. Piper, Director
/s/ Debbra L. Schoneman	/s/ Lisa K. Polksy
Debbra L. Schoneman Chief Financial Officer	Lisa K. Polsky, Director
/s/ Michael R. Francis	/s/ Frank L. Sims
Michael R. Francis, Director	Frank L. Sims, Director
/s/ B. Kristine Johnson	/s/ Jean M. Taylor
B. Kristine Johnson, Director	Jean M. Taylor, Director
/s/ Samuel L. Kaplan	
Samuel L. Kaplan, Director	

CERTIFICATIONS

I, Andrew S. Duff, certify that:

1. I have reviewed this annual report on Form 10-K 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: March 2, 2009

/s/ Andrew S. Duff
Andrew S. Duff
Chairman and Chief Executive Officer

CERTIFICATIONS

I, Debbra L. Schoneman, certify that:

1. I have reviewed this annual report on Form 10-K 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: March 2, 2009

/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: March 2, 2009

/s/ Andrew S. Duff
Andrew S. Duff
Chairman and Chief Executive Officer

/s/ Debbra L. Schoneman
Debbra L. Schoneman
Chief Financial Officer