FORM 10-Q

PIPER JAFFRAY COMPANIES - PJC

Filed: November 10, 2008 (period: September 30, 2008)

Quarterly report which provides a continuing view of a company's financial position

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

Form 10-Q

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

For the Quarterly Period Ended September 30, 2008

OR

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

For the transition period from __________ to __________

Commission File No. 001-31720

PIPER JAFFRAY COMPANIES
(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	**30-0168701** (IRS Employer Identification No.)
800 Nicollet Mall, Suite 800 **Minneapolis, Minnesota** (Address of principal executive offices)	**55402** (Zip Code)

(612) 303-6000
(Registrant's telephone number, including area code)

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

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

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

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

As of November 3, 2008, the registrant had 18,882,232 shares of Common Stock outstanding.

Piper Jaffray Companies

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Piper Jaffray Companies
Consolidated Statements of Financial Condition

(Amounts in thousands, except share data)	September 30, 2008 (Unaudited)	December 31, 2007
Assets		
Cash and cash equivalents	**$ 38,603**	$ 150,348
Receivables:		
Customers	**120,110**	124,329
Brokers, dealers and clearing organizations	**123,489**	87,668
Deposits with clearing organizations	**41,781**	30,649
Securities purchased under agreements to resell	**24,661**	52,931
Securitized municipal tender option bonds	**305,081**	49,526
Financial instruments and other inventory positions owned	**418,434**	500,809
Financial instruments and other inventory positions owned and pledged as collateral	**60,593**	242,214
Total financial instruments and other inventory positions owned	**479,027**	743,023
Fixed assets (net of accumulated depreciation and amortization of $61,911 and $55,508, respectively)	**22,874**	27,208
Goodwill	**284,804**	284,804
Intangible assets (net of accumulated amortization of $7,575 and $5,609, respectively)	**15,178**	17,144
Other receivables	**44,793**	38,219
Other assets	**141,671**	117,307
Total assets	**$ 1,642,072**	$ 1,723,156
Liabilities and Shareholders' Equity		
Short-term bank financing	**$ 13,000**	$ —
Payables:		
Customers	**106,331**	91,272
Checks and drafts	**7,101**	7,444
Brokers, dealers and clearing organizations	**35,910**	23,675
Securities sold under agreements to repurchase	**54,101**	247,202
Tender option bond trust certificates	**315,932**	48,519
Financial instruments and other inventory positions sold, but not yet purchased	**71,670**	176,191
Accrued compensation	**68,582**	132,908
Other liabilities and accrued expenses	**78,265**	83,356
Total liabilities	**750,892**	810,567
Shareholders' equity:		
Common stock, $0.01 par value:		
Shares authorized: 100,000,000 at September 30, 2008 and December 31, 2007;		
Shares issued: 19,494,488 at September 30, 2008 and December 31, 2007;		
Shares outstanding: 15,675,504 at September 30, 2008 and 15,662,835 at December 31, 2007	**195**	195
Additional paid-in capital	**741,315**	737,735
Retained earnings	**333,665**	367,900
Less common stock held in treasury, at cost: 3,818,984 shares at September 30, 2008 and 3,831,653 shares at December 31, 2007	**(184,204)**	(194,461)
Other comprehensive income	**209**	1,220
Total shareholders' equity	**891,180**	912,589
Total liabilities and shareholders' equity	**$ 1,642,072**	$ 1,723,156

See Notes to Consolidated Financial Statements

Piper Jaffray Companies
Consolidated Statements of Operations
(Unaudited)

(Amounts in thousands, except per share data)	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Revenues:				
Investment banking	**$ 48,313**	$ 50,276	**$ 135,762**	$ 208,881
Institutional brokerage	**12,834**	31,624	**93,842**	111,451
Interest	**10,509**	15,003	**38,782**	46,229
Asset management	**4,314**	903	**12,984**	1,102
Other income/(loss)	**(113)**	735	**(2,173)**	1,523
Total revenues	**75,857**	98,541	**279,197**	369,186
Interest expense	**3,148**	5,647	**15,852**	16,766
Net revenues	**72,709**	92,894	**263,345**	352,420
Non-interest expenses:				
Compensation and benefits	**78,001**	54,343	**203,823**	206,166
Occupancy and equipment	**8,092**	7,201	**24,335**	23,772
Communications	**6,597**	6,040	**19,205**	18,296
Floor brokerage and clearance	**3,342**	3,564	**9,895**	11,255
Marketing and business development	**6,099**	6,064	**19,576**	18,125
Outside services	**9,270**	8,134	**29,220**	24,573
Restructuring-related expenses	**4,592**	—	**10,213**	—
Other operating expenses	**1,830**	1,514	**10,898**	6,464
Total non-interest expenses	**117,823**	86,860	**327,165**	308,651
Income/(loss) from continuing operations before income tax expense/(benefit)	**(45,114)**	6,034	**(63,820)**	43,769
Income tax expense/(benefit)	**(18,603)**	1,222	**(28,799)**	13,858
Net income/(loss) from continuing operations	**(26,511)**	4,812	**(35,021)**	29,911
Discontinued operations:				
Income/(loss) from discontinued operations, net of tax	**(653)**	(456)	**786**	(2,811)
Net income/(loss)	**$ (27,164)**	$ 4,356	**$ (34,235)**	$ 27,100
Earnings per basic common share				
Income/(loss) from continuing operations	**$ (1.68)**	$ 0.30	**$ (2.20)**	$ 1.79
Income/(loss) from discontinued operations	**(0.04)**	(0.03)	**0.05**	(0.17)
Earnings per basic common share	**$ (1.72)**	$ 0.27	**$ (2.15)**	$ 1.62
Earnings per diluted common share				
Income from continuing operations	**N/A**	$ 0.28	**N/A**	$ 1.70
Loss from discontinued operations	**N/A**	(0.03)	**N/A**	(0.16)
Earnings per diluted common share	**N/A**	$ 0.26	**N/A**	$ 1.54
Weighted average number of common shares outstanding				
Basic	**15,772**	16,096	**15,891**	16,743
Diluted	**16,628**	16,904	**16,656**	17,610

N/A — Not applicable

See Notes to Consolidated Financial Statements

Piper Jaffray Companies
Consolidated Statements of Cash Flows
(Unaudited)

(Dollars in thousands)	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Operating Activities:		
Net income/(loss)	**$ (34,235)**	$ 27,100
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:		
Depreciation and amortization of fixed assets	**6,957**	6,660
Deferred income taxes	**262**	3,822
Loss/(Gain) on disposal of fixed assets	**(94)**	304
Stock-based compensation	**33,051**	19,791
Amortization of intangible assets	**1,966**	1,316
Decrease/(increase) in operating assets:		
Cash and cash equivalents segregated for regulatory purposes	**—**	5,000
Receivables:		
Customers	**6,592**	(61,516)
Brokers, dealers and clearing organizations	**(35,984)**	192,541
Deposits with clearing organizations	**(11,132)**	3,386
Securities purchased under agreements to resell	**28,270**	5,885
Securitized municipal tender option bonds	**(255,555)**	1,629
Net financial instruments and other inventory positions owned	**159,170**	154,328
Other receivables	**(6,827)**	13,451
Other assets	**(24,912)**	(25,337)
Increase/(decrease) in operating liabilities:		
Payables:		
Customers	**14,999**	(14,200)
Checks and drafts	**(343)**	(1,446)
Brokers, dealers and clearing organizations	**8,588**	(147,317)
Securities sold under agreements to repurchase	**1,749**	71,539
Tender option bond trust certificates	**267,413**	1,546
Accrued compensation	**(59,767)**	(74,409)
Other liabilities and accrued expenses	**(4,357)**	(31,849)
Net cash provided by operating activities	**95,811**	152,224
Investing Activities:		
Business acquisition, net of cash acquired	**—**	(52,681)
Purchases of fixed assets, net	**(2,807)**	(8,280)
Net cash used in investing activities	**(2,807)**	(60,961)
Financing Activities:		
Decrease in securities sold under agreements to repurchase	**(194,850)**	(7,648)
Increase in short-term bank financing	**13,000**	—
Repurchase of common stock	**(23,742)**	(87,489)
Excess tax benefits from stock-based compensation	**788**	2,072
Proceeds from stock option transactions	**36**	2,383
Net cash used in financing activities	**(204,768)**	(90,682)
Currency adjustment:		
Effect of exchange rate changes on cash	**19**	274
Net increase/(decrease) in cash and cash equivalents	**(111,745)**	855
Cash and cash equivalents at beginning of period	**150,348**	39,903

Cash and cash equivalents at end of period	**$ 38,603**	$ 40,758
Supplemental disclosure of cash flow information -		
Cash paid/(received) during the period for:		
Interest	**$ 18,191**	$ 17,058
Income taxes	**$ (4,991)**	$ 4,115
Non-cash financing activities -		
Issuance of common stock for retirement plan obligations:		
90,140 shares and 8,619 shares for the nine months ended September 30, 2008 and 2007, respectively	**$ 3,704**	$ 598

See Notes to Consolidated Financial Statements

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

Note 1 *Background*

Piper Jaffray Companies is the parent company of Piper Jaffray & Co. (“Piper Jaffray”), a securities broker dealer and investment banking firm; Piper Jaffray 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., an entity that facilitates customer derivative transactions; Piper Jaffray Financial Products II Inc., an entity dealing primarily in variable rate municipal products; 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.

Basis of Presentation

The consolidated financial statements include the accounts of Piper Jaffray Companies, its wholly owned subsidiaries and other entities in which the Company has a controlling financial interest. All material intercompany balances have been eliminated. Certain financial information for prior periods has been reclassified to conform to the current period presentation.

The consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”) with respect to Form 10-Q and reflect all adjustments that in the opinion of management are normal and recurring and that are necessary for a fair statement of the results for the interim periods presented. In accordance with these rules and regulations, certain disclosures that are normally included in annual financial statements have been omitted. The consolidated financial statements included in this Form 10-Q should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2007.

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

Note 2 *Summary of Significant Accounting Policies*

Refer to the Company’s Annual Report on Form 10-K for the year ended December 31, 2007, for a full description of the Company’s significant accounting policies. Changes to the Company’s significant accounting policies are described below.

Financial Instruments and Other Inventory Positions

Financial instruments and other inventory positions owned and financial instruments and other inventory positions sold, but not yet purchased, 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 1 — 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 1 are highly liquid instruments with quoted prices such as equities listed in active markets and certain U.S. treasury bonds.

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 municipal bonds, certain convertible securities and certain corporate bonds.

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 SFAS No. 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.

Note 3 *Recent Accounting Pronouncements*

Effective January 1, 2008, the Company adopted SFAS 157. Prior to January 1, 2008, the Company followed the AICPA Audit and Accounting Guide, *Brokers and Dealers in Securities*, when determining fair value for financial instruments. SFAS 157 defines fair value as 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, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. Further, SFAS 157 disallows the use of block discounts on positions traded in an active market and nullifies certain guidance regarding the recognition of inception gains on certain derivative transactions. The impact of adopting SFAS 157 in our first quarter of 2008 was not material to our consolidated financial statements. See Note 6, “Fair Value of Financial Instruments” to the consolidated financial statements for additional information.

Effective January 1, 2008, the Company adopted 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. The Company did not make any elections under SFAS 159 to apply fair value to additional financial assets and liabilities.

Effective January 1, 2008, the Company adopted 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. The adoption of FSP FIN 39-1 did not have a material effect on the consolidated financial statements of the Company.

In December 2007, the Financial Accounting Standards Board (“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.

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. We are evaluating the impact of SFAS 160 on our consolidated financial statements.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS 161"). SFAS 161 requires disclosures regarding the location and amounts of derivative instruments in the Company's financial statements; how derivative instruments and related hedged items are accounted for; and how derivative instruments and related hedged items affect the Company's financial position, financial performance and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods after November 15, 2008. Early application is permitted. Because SFAS 161 impacts the Company's disclosure and not its accounting treatment for derivative instruments and any related hedged items, the Company's adoption of SFAS 161 will not impact the consolidated financial statements.

In October 2008, the FASB issued FASB Staff Position No. 157-d, "Determining Fair Value in a Market That is Not Active" ("FSP 157-d"). FSP 157-d amends SFAS 157 to clarify its application in an inactive market. It provides an illustrative example demonstrating that the use of management estimates that incorporate current market participant expectations of future cash flows and appropriate risk premiums is acceptable in determining the fair value of a financial asset in an inactive market. FSP 157-d is effective upon issuance and is not expected to have a material affect on our consolidated financial statements.

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 a gain from discontinued operations, net of tax, of $0.8 million for the nine months ended September 30, 2008, primarily related to a litigation settlement offset by changes in estimates to occupancy. 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 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 13 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)	**September 30, 2008**	December 31, 2007
Financial instruments and other inventory positions owned (1):		
Corporate securities:		
Equity securities	**$ 22,356**	$ 14,977
Convertible securities	**28,424**	102,938
Fixed income securities	**30,979**	64,367
Municipal Securities:		
Auction rate municipal securities	**50,225**	202,500
Variable rate demand notes	**22,360**	32,542
Other municipal securities	**182,657**	158,624
Asset-backed securities	**53,365**	44,006
U.S. government agency securities	**23,113**	48,074
U.S. government securities	**21,758**	4,520
Derivative contracts	**43,790**	56,554
Other	**—**	13,921
	$ 479,027	$ 743,023
Financial instruments and other inventory positions sold, but not yet purchased:		
Corporate securities:		
Equity securities	**$ 17,988**	$ 66,856
Convertible securities	**—**	4,764
Fixed income securities	**13,211**	26,310
U.S. government agency securities	**5**	25,752
U.S. government securities	**31,479**	33,972
Derivative contracts	**1,684**	18,388
Other	**7,303**	149

	$ 71,670	$ 176,191

(1) Excludes the Company's $305.1 million in securitized municipal tender option bonds held in securitized trusts.

At September 30, 2008 and December 31, 2007, financial instruments and other inventory positions owned in the amount of $60.6 million and $242.2 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 September 30, 2008 and December 31, 2007, the Company was counterparty to notional/contract amounts of $7.6 billion and $7.5 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*

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 September 30, 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	$ 43,233	$ 291,826	$ 100,178	$ —	$ 435,237
Derivative instruments	—	58,436	—	(14,646)(4)	43,790
Total financial instruments and other inventory positions owned:	43,233	350,262	100,178	(14,646)	479,027
Securitized municipal tender option bonds	—	305,081	—	—	305,081
Investments	2,172	—	23,563	—	25,735
Level III investments for which the Company does not bear economic exposure	—		(7,462)(3)		(7,462)
Level III investments for which the Company bears economic exposure	2,172		16,101		18,273
Total assets for which the Company bears economic exposure	$ 45,405	$ 655,343	$ 116,279	$ (14,646)	$ 802,381
Liabilities:					
Financial instruments and other inventory positions sold, but not yet purchased:					
Non-derivative instruments	$ 32,592	$ 34,489	$ 2,905	$ —	$ 69,986
Derivative instruments	—	1,684	—	—	1,684
Total financial instruments and other inventory positions sold, but not yet purchased:	32,592	36,173	2,905	—	71,670
Tender option bond trust certificates	—	315,932	—	—	315,932
Investments	—	—	4,526	—	4,526
Total liabilities	$ 32,592	$ 352,105	$ 7,431	$ —	$ 392,128

(1) *Level I financial instruments included highly liquid instruments with quoted prices such as certain U.S. treasury bonds and equities listed in active markets. 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 U.S. government agency securities, certain municipal bonds, certain convertible securities and certain corporate bonds.*

(2) *As permitted by FIN 39-1 the Company offsets cash and cash equivalent collateral receivables or payables with net derivative positions under certain circumstances.*

(3) *Consists of Level III investments which are attributable to minority investors or attributable to employee interests in certain consolidated funds.*

(4) *The Company posted $14.6 million of short-term U.S. treasury bonds as collateral at September 30, 2008.*

The following table summarizes the changes in fair value carrying values associated with Level III financial instruments during the nine months ended September 30, 2008:

(Dollars in thousands)	Non-Derivative Assets	Non-Derivative Liabilities	Investment Assets	Investment Liabilities
Balance at December 31, 2007	**$ 230,703**	**$ —**	**$ 34,783**	**$ 4,576**
Purchases (sales), net	46,906	—	(1,050)	—
Net transfers in (out)	—	—	—	—
Realized gains (losses) (5)	(1,749)	—	777	—
Unrealized gains (losses) (5)	1,780	—	(3,819)	(277)
Balance at March 31, 2008	**277,640**	**—**	**30,691**	**4,299**
Purchases (sales), net	(159,318)	—	(3,592)	—
Net transfers in (out)	29,178	1,960	(1,264)	—
Realized gains (losses) (5)	(190)	(80)	—	—
Unrealized gains (losses) (5)	(5,567)	—	1,396	42
Balance at June 30, 2008	**141,743**	**1,880**	**27,231**	**4,341**
Purchases (sales), net	(19,532)	2,984	457	520
Net transfers in (out)	(4,817)	(1,862)	(2,543)	—
Realized gains (losses) (5)	(11,906)	32	—	—
Unrealized gains (losses) (5)	(5,310)	(129)	(1,582)	(335)
Balance at September 30, 2008	**$ 100,178**	**$ 2,905**	**$ 23,563**	**$ 4,526**

(5) 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.

Note 7 *Securitizations*

Through its tender option bond program, the Company sells 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. 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.

At September 30, 2008 the Company had a total of 26 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 $305.1 million (par value $339.9 million) as of September 30, 2008, in securitized municipal tender option bonds and a liability for the certificates sold by the trusts for $315.9 million as of September 30, 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.

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 September 30, 2008 was $315.9 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 $305.1 million at September 30, 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 $10.8 million as of September 30, 2008.

In the third quarter of 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 believes it will 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.

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 September 30, 2008. The fair value of retained interests was $13.9 million at December 31, 2007, with a weighted average life of 8.0 years. The fair value of retained interests at December 31, 2007, 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. The Company receives a fee to remarket the variable rate certificates derived from the securitizations.

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

	Nine Months Ended September 30,	
(Dollars in thousands)	**2008**	2007
Proceeds from new securitizations	**$77,134**	$29,000
Remarketing fees received	**110**	60
Cash flows received on retained interests	**5,180**	2,562

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 $8.0 million and $11.1 million at September 30, 2008 and December 31, 2007, respectively.

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

Amounts receivable from brokers, dealers and clearing organizations at September 30, 2008 and December 31, 2007 included:

(Dollars in thousands)	**September 30, 2008**	December 31, 2007
Receivable arising from unsettled securities transactions, net	**$ 633**	$ 591
Deposits paid for securities borrowed	**49,651**	55,257
Receivable from clearing organizations	**45,205**	8,081
Securities failed to deliver	**23,690**	7,647
Other	**4,310**	16,092
	$ 123,489	$ 87,668

Amounts payable to brokers, dealers and clearing organizations at September 30, 2008 and December 31, 2007 included:

(Dollars in thousands)	**September 30, 2008**	December 31, 2007
Payable to clearing organizations	**$ 33,958**	$ 12,648
Securities failed to receive	**1,944**	11,021
Other	**8**	6
	$ 35,910	$ 23,675

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

Note 9 *Other Assets*

Other assets includes investments in private equity partnerships that are valued at fair value, investments in private companies and bridge-loans valued at cost, net deferred tax assets, income tax receivables and prepaid expenses.

Other assets at September 30, 2008 and December 31, 2007 included:

	September 30, 2008	December 31, 2007
Investments at fair value	$ 25,735	$ 30,207
Investments at cost	27,677	22,497
Deferred income tax assets	41,456	41,718
Income tax receivables	32,805	6,513
Prepaid expenses	8,797	7,596
Other	5,201	8,777
Total other assets	$ 141,671	$ 117,307

Note 10 *Goodwill and Intangible Assets*

The following table presents the changes in the carrying value of goodwill and intangible assets for the nine months ended September 30, 2008:

(Dollars in thousands)	
Goodwill	
Balance at December 31, 2007	$284,804
Goodwill acquired	—
Impairment losses	—
Balance at September 30, 2008	$284,804

(Dollars in thousands)	
Intangible assets	
Balance at December 31, 2007	$17,144
Intangible assets acquired	—
Amortization of intangible assets	(1,966)
Impairment losses	—
Balance at September 30, 2008	$15,178

Note 11 *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 bank 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.

On September 30, 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 September 30, 2008, the Company had no advances against this line of credit.

On February 19, 2008, the Company entered into a $600 million revolving credit facility with U.S. Bank N.A. pursuant to which the Company was permitted to request advances to fund certain short-term municipal securities. The advances were secured by certain pledged assets of the Company. Interest was paid monthly, and the unpaid principal amount of all advances was due on August 19, 2008. All advances were repaid as of August 19, 2008, and this credit facility was not renewed.

The Company's short-term financing bears interest at rates based on the federal funds rate. For the nine months ended September 30, 2008 and 2007, the weighted average interest rate on borrowings was 2.86 percent and 5.69 percent, respectively. At September 30, 2008 and December 31, 2007, no formal compensating balance agreements existed, and the Company was in compliance with all debt covenants related to its financing facilities.

On December 31, 2007, the Company entered into an agreement whereby 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 expires on December 26, 2008.

Note 12 *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 $15.7 million and $8.4 million at September 30, 2008 and December 31, 2007, 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 September 30, 2008 will be funded by an insurance receivable, which is recorded within other receivables on the consolidated statement of financial condition. In addition to the Company's established reserves, U.S. Bancorp, from whom the Company spun-off on December 31, 2003, has agreed to indemnify the Company in an amount up to $17.5 million for certain legal and regulatory matters. Approximately $12.8 million of this amount remained available as of September 30, 2008.

As part of the asset purchase agreement between UBS and the Company for the sale of the PCS branch network, UBS agreed to assume certain liabilities of the PCS business, including certain liabilities and obligations arising from litigation, arbitration, customer complaints and other claims related to the PCS business. In certain cases, we have agreed to indemnify UBS for litigation matters after UBS has incurred costs of $6.0 million related to these matters and as of the third quarter of 2008, we have exceeded this $6.0 million threshold. In addition, we have retained liabilities arising from regulatory matters and certain litigation relating to the PCS business prior to the sale. The amount of exposure in excess of the $6.0 million indemnification threshold and for other PCS litigation matters deemed to be probable and reasonably estimable are included in the Company's established reserves. 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, the U.S. Bancorp indemnity agreement, the assumption by UBS of certain liabilities of the PCS business and our indemnification obligations to UBS, 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 and/or the U.S. Bancorp indemnification, the results of operations in that period could be materially adversely affected.

Note 13 *Restructuring*

In 2006, the Company implemented a specific restructuring plan to reorganize the Company's support infrastructure as a result of the PCS branch network sale to UBS. In 2008, the Company implemented certain expense reduction measures as a means to better align its cost infrastructure with its revenues. The following table presents a summary of activity with respect to the restructuring-related liabilities included in other liabilities and accrued expenses on the consolidated statements of financial condition:

(Dollars in thousands)	2008 Restructuring	PCS Restructuring
Balance at December 31, 2007	**$ —**	**$ 14,566**
Provisions charged to discontinued operations	—	(640)
Provisions charged to continuing operations	10,213	—
Cash outlays	(2,981)	(3,642)
Non-cash write-downs	(2,454)	(242)
Balance at September 30, 2008	**$ 4,778**	**$ 10,042**

Note 14 *Shareholders' Equity*

Share Repurchase Program

In the second quarter of 2008, the Company's board of directors authorized the repurchase of up to $100 million in common shares through June 30, 2010. During the nine months ended September 30, 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.

Issuance of Shares

During the nine months ended September 30, 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 and issued 366,754 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").

Note 15 *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:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
(Amounts in thousands, except per share data)	**2008**	2007	**2008**	2007
Net income/(loss)	**$ (27,164)**	$ 4,356	**$ (34,235)**	$ 27,100
Shares for basic and diluted calculations:				
Average shares used in basic computation	**15,772**	16,096	**15,891**	16,743
Stock options	**844**	722	**737**	755
Restricted stock	**12**	86	**28**	112
Average shares used in diluted computation	**16,628**	16,904	**16,656**	17,610
Earnings per share:				
Basic	**$ (1.72)**	$ 0.27	**$ (2.15)**	$ 1.62
Diluted	**N/A**(1)	$ 0.26	**N/A**(1)	$ 1.54

N/A — Not applicable

(1) *In accordance with SFAS 128, earnings per diluted common share is not calculated in periods when a loss is incurred.*

Note 16 *Stock-Based Compensation*

The Company maintains one stock-based compensation plan, the Incentive Plan. The Incentive Plan permits the grant of equity awards, including non-qualified stock options and restricted stock, to the Company's employees and directors subject to a limit of 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 75 percent of the value of awards have three-year cliff vesting periods, approximately 11 percent of the value of awards vest ratably from 2010 through 2013 on the annual grant date anniversary, and approximately 14 percent of the value of 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 the majority 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 as of the grant date, 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 based on fair value as of the grant date, net of estimated forfeitures. Because the Company historically expensed all equity awards based on the fair value method, net of estimated forfeitures, SFAS 123(R) did not have a material effect on the Company's measurement or recognition methods for stock-based compensation.

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 grants prior to January 1, 2006, are amortized on a straight-line basis over the vesting period based on the market price of Piper Jaffray Companies common stock on the date of grant. Service-based restricted stock grants after January 1, 2006, are valued at the market price of the Company's common stock on the date of grant and amortized on a straight-line basis over the required 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, as set forth in the award agreements or any agreements entered into upon termination. The Company considers the required service period to be the greater of the vesting period or the post-termination restricted period. The Company believes that the post-termination restrictions meet the SFAS 123(R) definition of a substantive service requirement.

Performance-based restricted stock awards granted in 2008 are 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, net of estimated forfeitures, within continuing operations of $10.8 million and $7.3 million for the three months ended September 30, 2008 and 2007, respectively, and $30.6 million and $19.7 million for the nine months ended September 30, 2008 and 2007, respectively, related to employee stock option and restricted stock grants. The tax benefit related to the total compensation cost for stock-based compensation arrangements totaled $4.2 million and $2.8 million for the three months ended September 30, 2008 and 2007, respectively, and $11.8 million and $7.5 million for the nine months ended September 30, 2008 and 2007, respectively.

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 bond 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. 107, ("SAB 107"). SAB 107 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 nine months ended September 30:

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

The following table summarizes the changes in the Company's outstanding stock options for the nine months ended September 30, 2008:

	Options Outstanding	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Term (Years)**	**Aggregate Intrinsic Value**
December 31, 2007	470,715	$44.99	7.1	$1,988,641
Granted	128,887	41.09		
Exercised	(899)	39.62		
Canceled	(15,935)	41.28		
September 30, 2008	582,768	$44.24	6.9	$ 107,784
Options exercisable at September 30, 2008	391,308	$42.67	5.9	$ 107,784

As of September 30, 2008, there was $2.2 million of total unrecognized compensation cost related to stock options expected to be recognized over a weighted average period of 2.09 years.

Cash received from option exercises for the nine months ended September 30, 2008 and 2007, was $0.04 million and $2.4 million, respectively. The tax benefit realized for the tax deduction from option exercises totaled $0.01 and $0.9 million for the nine months ended September 30, 2008 and 2007, respectively.

The following table summarizes the changes in the Company's non-vested restricted stock for the nine months ended September 30, 2008:

	Non-Vested Restricted Stock	Weighted Average Grant Date Fair Value
December 31, 2007	1,827,969	$51.93
Granted	2,118,891	40.85
Vested	(577,958)	37.42
Canceled	(152,525)	48.34
September 30, 2008	3,216,377	$47.41

As of September 30, 2008, there was $93.8 million of total unrecognized compensation cost related to restricted stock expected to be recognized over a weighted average period of 2.62 years.

The vesting of stock options and restricted stock generally results in windfall tax benefits or shortfalls. A windfall tax benefit is defined as any corporate income tax benefit realized upon exercise or vesting of an award that exceeds amounts previously recognized in earnings. SFAS 123 (R) states that realized windfall tax benefits are credited to additional-paid-in-capital within the consolidated statement of financial condition. Realized shortfall tax benefits (amounts which are less than that previously recognized in earnings) are first offset against the cumulative balance of windfall tax benefits, if any, and then charged directly to income tax expense. As of September 30, 2008 we had a cumulative windfall tax benefit recorded within additional paid-in capital of $2.9 million.

Note 17 *Geographic Areas*

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	**2008**	2007	**2008**	2007
Net revenues:				
United States	**$ 61,926**	$ 89,641	**$ 227,534**	$ 311,200
Europe	**5,920**	3,837	**20,892**	28,658
Asia	**4,863**	(584)	**14,919**	12,562
Consolidated	**$ 72,709**	$ 92,894	**$ 263,345**	$ 352,420

(Dollars in thousands)	**September 30, 2008**	December 31, 2007
Long-lived assets:		
United States	**$ 341,328**	$ 347,885
Europe	**2,126**	2,909
Asia	**20,858**	20,080
Consolidated	**$ 364,312**	$ 370,874

Note 18 *Net Capital Requirements and Other Regulatory Matters*

Piper Jaffray is registered as a securities broker dealer 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 FINRA, which now serves as the Company's primary SRO. Piper Jaffray is subject to the uniform net capital rule of the SEC and the net capital rule of FINRA. Piper Jaffray has elected to use the alternative method permitted by the SEC rule, which requires that it maintain minimum net capital of the greater of $1.0 million or 2 percent of aggregate debit balances arising from customer transactions, as such term is defined in the SEC rule. Under 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 September 30, 2008, net capital calculated under the SEC rule was $223.5 million, and exceeded the minimum net capital required under the SEC rule by $221.0 million.

Although Piper Jaffray operates 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., which is a registered United Kingdom broker dealer, is subject to the capital requirements of the U.K. Financial Services Authority ("FSA"). As of September 30, 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 September 30, 2008, Piper Jaffray Asia regulated entities were in compliance with the liquid capital requirements of the Hong Kong Securities and Futures Ordinance.

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

The following information should be read in conjunction with the accompanying 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 cover, among other things, statements made about general economic and market conditions, the investment banking industry, our current deal pipelines, the environment and prospects for capital markets transactions and activity, management expectations, anticipated financial results including expectations regarding revenue levels and compensation and non-compensation expense levels, the valuation of goodwill and intangible assets, the Company's liquidity and funding sources, counterparty credit risk, bridge-loan financings, the Company's tender option bond program, or other similar matters. Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ materially from those anticipated, including those factors discussed below under "External Factors Impacting Our Business" as well as the factors identified under "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2007, as updated in our subsequent reports filed with the SEC. These reports are available at our web site at www.piperjaffray.com and at the SEC web site at www.sec.gov. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update them in light of new information or future events.

Executive Overview

Our business principally consists of providing investment banking, institutional brokerage, asset management and related financial services to 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.

The investment banking industry is presently undergoing a historic reshaping during this period of financial market turmoil. During the third quarter, the industry witnessed the bankruptcy of Lehman Brothers Holdings Inc., the acquisition of Merrill Lynch & Co. by Bank of America Corp., 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 industry upheaval, our middle market focus and growth strategy which seeks to enhance our platform across geographies, products and sectors remains unchanged. We believe that we have a unique 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. Our business will also benefit over the long-term from those competitors who are no longer in the business or have been diminished. As we manage through near-term depressed revenue levels we are taking a variety of actions to reduce our cost infrastructure. We are balancing the opportunities available to us while managing expenses and our risks through the current market turmoil.

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, 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 specific industry sectors. These sectors may experience growth or downturns independently of general economic and market conditions, or may face market conditions that are disproportionately better or worse than those impacting the economy and markets generally. In either case, 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.

RESULTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008

Net revenues from continuing operations for the three months ended September 30, 2008, were $72.7 million, a decline of 21.7 percent compared with the prior-year period. For the three months ended September 30, 2008, we recorded a net loss from continuing operations of $26.5 million, or $1.68 per share, compared to net income of $4.8 million, or $0.28 per diluted share, for the corresponding period in 2007. For the three months ended September 30, 2008, our net loss, including continuing and discontinued operations, was $27.2 million, or $1.72 per share, compared to net income of $4.4 million, or $0.26 per diluted share, for the prior-year period.

For the nine months ended September 30, 2008, net revenues from continuing operations were $263.3 million, a decline of 25.3 percent compared with the prior-year period. For the nine months ended September 30, 2008, we recorded a net loss from continuing operations of $35.0 million, or $2.20 per share, compared to net income of $29.9 million, or $1.70 per diluted share, for the first nine months of 2007. We recorded a net loss, including continuing and discontinued operations, for the nine months ended September 30, 2008, of $34.2 million, or $2.15 per share, compared to net income of $27.1 million, or $1.54 per diluted share, for the prior-year period.

During the third quarter of 2008, the financial markets experienced unprecedented events. The equity markets experienced significant volatility, and the credit markets ceased to operate in an effective manner in September, which had significant negative implications for the short-term segment of the fixed income markets. During the third quarter our investment banking revenues declined modestly from the weak year-ago period. Institutional sales and trading revenues were mixed during the third quarter. Equity sales and trading performed well benefiting from strong client activity driven by increased market volumes and volatility. The turmoil in the credit markets drove extreme volatility in the fixed income markets, particularly at the end of the third quarter. The volatile fixed income markets were difficult to manage and our fixed income sales and trading results were negatively impacted. Our proprietary strategy to securitize municipal bonds through a tender option bond (“TOB”) off-balance sheet structure was severely impacted by the dislocation in the municipal bond market, resulting in a $21.7 million pre-tax loss in the third quarter. For additional information related to our TOB program, refer to “Off-Balance Sheet Arrangements” below.

OUTLOOK

Market conditions in the first nine months of 2008 were very difficult as the credit turmoil has had a severe impact on the global financial markets. We have experienced significantly reduced equity financing opportunities and the credit turmoil has negatively impacted our fixed income institutional sales and trading revenues. Weak economic indicators, the likelihood of recession and continued turmoil in the credit markets have caused significant market uncertainty and increased volatility. Our financial performance depends heavily on investment banking activity, and with the equity capital markets essentially on hold, we anticipate our results will be negatively impacted. We anticipate these challenging market conditions will persist through the remainder of 2008 and well into 2009. Specifically, we anticipate that equity financing activity will remain depressed through the remainder of 2008 and well into 2009, and we do not see improvement in the fixed income credit market in the near term, which will negatively impact debt financings and fixed income sales and trading.

In response to this outlook, we intend to use a more variable compensation model in 2009 and are working to reduce our core non-compensation expenses. For 2008 we intend to reduce core non-compensation expenses to a 5% increase over 2007, and our goal for 2009 is to reduce the core non-compensation expense run-rate to approximately $35 million. If we are successful in reducing our expenses, we believe that we can achieve breakeven performance at $95 million in revenues per quarter in 2009. There can be no assurance that we will achieve these goals and performance objectives, however, and if we fail to do so our operating results could be adversely affected, potentially significantly.

Results of Operations

FINANCIAL SUMMARY FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2008 AND SEPTEMBER 30, 2007

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 Three Months Ended September 30,			As a Percentage of Net Revenues For the Three Months Ended September 30,	
(Dollars in thousands)	**2008**	2007	2008 v2007	**2008**	2007
Revenues:					
Investment banking	**$ 48,313**	$ 50,276	(3.9)%	**66.4%**	54.1%
Institutional brokerage	**12,834**	31,624	(59.4)	**17.7**	34.0
Interest	**10,509**	15,003	(30.0)	**14.5**	16.2
Asset management	**4,314**	903	N/M	**5.9**	1.0
Other income/(loss)	**(113)**	735	(115.4)	**(0.2)**	0.8
Total revenues	**75,857**	98,541	(23.0)	**104.3**	106.1
Interest expense	**3,148**	5,647	(44.3)	**4.3**	6.1
Net revenues	**72,709**	92,894	(21.7)	**100.0**	100.0
Non-interest expenses:					
Compensation and benefits	**78,001**	54,343	43.5	**107.3**	58.5
Occupancy and equipment	**8,092**	7,201	12.4	**11.1**	7.8
Communications	**6,597**	6,040	9.2	**9.1**	6.5
Floor brokerage and clearance	**3,342**	3,564	(6.2)	**4.6**	3.8
Marketing and business development	**6,099**	6,064	0.6	**8.4**	6.5
Outside services	**9,270**	8,134	14.0	**12.7**	8.8
Restructuring-related expenses	**4,592**	—	N/M	**6.3**	—
Other operating expenses	**1,830**	1,514	20.9	**2.5**	1.6
Total non-interest expenses	**117,823**	86,860	35.6%	**162.0**	93.5
Income/(loss) from continuing operations before income tax expense/(benefit)	**(45,114)**	6,034	N/M	**(62.0)**	6.5
Income tax expense/(benefit)	**(18,603)**	1,222	N/M	**N/M**	1.3
Net income/(loss) from continuing operations	**(26,511)**	4,812	N/M	**(36.5)**	5.2
Discontinued operations:					
Loss from discontinued operations, net of tax	**(653)**	(456)	N/M	**(0.9)**	(0.5)
Net income/(loss)	**$ (27,164)**	$ 4,356	N/M	**(37.4)%**	4.7%

N/M — Not meaningful

For the three months ended September 30, 2008, we recorded a net loss, including continuing and discontinued operations, of $27.2 million. Net revenues from continuing operations for the third quarter of 2008 were $72.7 million, a decrease of 21.7 percent from the year-ago period. For the three months ended September 30, 2008, investment banking revenues decreased 3.9 percent to $48.3 million, compared with revenues of $50.3 million in the prior-year period. The decline in investment banking revenues was primarily driven by significantly lower equity financing activity. Institutional brokerage revenues for the quarter decreased 59.4 percent to $12.8 million, compared with $31.6 million in the corresponding period in the prior year, primarily due to the $21.7 million loss related to our TOB program, which we previously disclosed on October 7, 2008. In the third quarter of 2008, net interest income decreased 21.3 percent over the year-ago period to $7.4 million due to increased borrowing levels in 2008. Asset management fees for the quarter were $4.3 million and other income decreased to a loss of $0.1 million, compared with income of $0.7 million in the prior-year period, as a result of losses recorded on principal investments. Non-interest expenses increased to $117.8 million for the three months ended September 30, 2008, from $86.9 million in the corresponding period in the prior year, primarily as a result of increased compensation and benefits expense, restructuring-related expenses and additional expenses from our acquisitions of FAMCO and Goldbond completed in late 2007.

CONSOLIDATED NON-INTEREST EXPENSES

Compensation and Benefits - Compensation and benefits expenses, which are the largest component of our expenses, include salaries, bonuses, commissions, benefits, amortization of 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, stock-based compensation amortization, benefits, and guaranteed bonus arrangements are primarily 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.

For the three months ended September 30, 2008, compensation and benefits expenses increased 43.5 percent to $78.0 million, from $54.3 million in the corresponding period in 2007. We increased our compensation expense in the third quarter with the goal of achieving a minimum competitive full-year compensation level in order to retain our talent base. In addition, we incurred additional expense from the acquisitions of FAMCO and Goldbond in September and October of 2007. Compensation and benefits expenses as a percentage of net revenues increased to 107.3 percent for the third quarter of 2008, compared with 58.5 percent for the third quarter of 2007. A significant portion of the increased compensation and benefits ratio was attributable to the TOB loss and the remainder was mainly driven by higher fixed compensation costs over a lower revenue base. We expect that incentive compensation for 2008 will be down significantly compared to 2007, however, our compensation to revenue ratio will remain significantly elevated through 2008.

Occupancy and Equipment - In the third quarter of 2008, occupancy and equipment expenses were $8.1 million, compared with $7.2 million for the corresponding period in 2007. The increase was attributable to additional occupancy expenses from our acquisitions of FAMCO and Goldbond in late 2007.

Communications - Communication expenses include costs for telecommunication and data communication, primarily consisting of expense for obtaining third-party market data information. For the three months ended September 30, 2008, communication expenses were $6.6 million, compared with $6.0 million for the prior-year period. The increase was attributable to additional communication expenses from our acquisitions of FAMCO and Goldbond.

Floor Brokerage and Clearance - For the three months ended September 30, 2008, floor brokerage and clearance expenses were $3.3 million, compared with $3.6 million for the three months ended September 30, 2007. In the third quarter of 2008, we incurred lower expenses associated with accessing electronic communication networks.

Marketing and Business Development - Marketing and business development expenses include travel and entertainment and promotional and advertising costs. In the third quarter of 2008, marketing and business development expenses were $6.1 million, essentially the same as the prior year period.

Outside Services - Outside services expenses include securities processing expenses, outsourced technology functions, outside legal fees and other professional fees. Outside services expenses increased 14.0 percent to $9.3 million in the third quarter of 2008, compared with $8.1 million for the prior-year period. This increase was due to increased legal fees, increased costs related to FAMCO and Goldbond and fees incurred to secure the revolving credit facility that we entered into in the first quarter of 2008, offset in part by a decline in professional fees incurred in the prior year in connection with the implementation of a new back-office system.

Restructuring-related Expenses - In the third quarter of 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 $4.6 million, consisting of $2.2 million in severance benefits and $2.4 million related to the reduction of office space.

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 the third quarter of 2008, other operating expenses increased to $1.8 million, compared with $1.5 million in the third quarter of 2007. The current period was impacted favorably by the resolution of the trading-related litigation matter, which was only partially resolved in the second quarter of 2008. We were able to offset the majority of the $2.9 million in litigation-related expenses that we incurred in the second quarter of 2008. The prior year period was impacted favorably by the reversal of a litigation-related reserve.

Income Taxes - For the three months ended September 30, 2008, our provision for income taxes from continuing operations was a benefit of $18.6 million, equating to an effective tax rate of 41.2 percent. For the three months ended September 30, 2007, income taxes from continuing operations were $1.2 million, equating to an effective tax rate of 20.3 percent. The 41.2 percent effective tax rate for the third quarter of 2008 was driven by the large amount of tax-exempt municipal interest income and operating losses.

NET REVENUES FROM CONTINUING OPERATIONS (DETAIL)

(Dollars in thousands)	For the Three Months Ended September 30, 2008	2007	2008 v2007
Net revenues:			
Investment banking			
Financing			
Equities	**$ 11,397**	$ 18,211	(37.4)%
Debt	**17,771**	18,169	(2.2)
Advisory services	**21,358**	16,120	32.5
Total investment banking	**50,526**	52,500	(3.8)
Institutional sales and trading			
Equities	**35,302**	25,192	40.1
Fixed income	**(17,280)**	13,652	N/M
Total institutional sales and trading	**18,022**	38,844	(53.6)
Asset management	**4,314**	903	N/M
Other loss	**(153)**	647	N/M
Total net revenues	**$ 72,709**	$ 92,894	(21.7)%

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.

For the three months ended September 30, 2008, investment banking revenues were $50.5 million, a decline of 3.8 percent from a weak quarter in the prior year due to challenging market conditions, especially within the equity capital markets. Equity financing revenues decreased 37.4 percent to $11.4 million in the third quarter of 2008 due to significantly lower equity financing activity. Equity capital markets activity continues to be depressed due to lower valuations and increased volatility. During the third quarter of 2008, we completed 13 equity financings, raising $2.4 billion in capital for our clients. In the third quarter of 2007, we completed 14 equity financings raising $2.4 billion in capital for our clients. Fixed income financing revenues in the third quarter of 2008 decreased slightly from the prior-year period to $17.8 million. During the third quarter of 2008, we underwrote 93 tax-exempt issues with a par value of $2.0 billion, compared with 91 tax-exempt issues with a par value of $1.3 billion in the prior-year period. Advisory services revenues increased 32.5 percent to $21.4 million in the third quarter of 2008 due to higher revenues per transaction.

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 in this area may vary from quarter to quarter as a result of changes in trading margins, trading gains and losses, net interest spreads, trading volumes and the timing of transactions based on market opportunities.

For the three months ended September 30, 2008, institutional sales and trading revenues decreased 53.6 percent to $18.0 million, compared with $38.8 million for the three months ended September 30, 2007. Equity institutional sales and trading revenues increased 40.1 percent to $35.3 million in the third quarter of 2008, compared with $25.2 million in the prior-year period. This increase is due primarily to higher revenues from U.S. equities as a result of strong client activity driven by increased market volumes and volatility, and lower trading loss ratios. In the third quarter of 2008, fixed income institutional sales and trading revenues were a negative $17.3 million, compared with a positive $13.7 million of revenues in the prior year period. The lower performance was principally driven by the $21.7 million loss related to our TOB program. In addition, distressed credit markets negatively impacted revenues from high yield and structured products.

For the third quarter of 2008, asset management fees were $4.3 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.

Other loss includes gains and losses from our investments in private equity and venture capital funds as well as other firm investments. Other loss also includes interest expense not allocated to specific product areas. In the third quarter of 2008, we recorded a loss of $0.2 million, compared with income of $0.6 million in the third quarter of 2007. The decline in performance was a result of losses on investments and higher interest expense resulting from increased financing requirements in the third quarter of 2008, as a result of cash disbursements made in late 2007 for stock repurchases and the acquisitions of FAMCO and Goldbond.

DISCONTINUED OPERATIONS

Discontinued operations include the resolution of certain legal matters and revisions to restructuring estimates related to our Private Client Services ("PCS") business, which we sold to UBS on August 11, 2006.

In the third quarter of 2008, discontinued operations recorded a net loss of $0.7 million, related to changes in estimates on office space leased. A net loss of $0.5 million was recorded in the third quarter of 2007 which included costs related to decommissioning a retail-oriented back-office system, PCS litigation-related expenses and restructuring charges.

FINANCIAL SUMMARY FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND SEPTEMBER 30, 2007

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 Nine Months Ended September 30,			As a Percentage of Net Revenues For the Nine Months Ended September 30,	
(Dollars in thousands)	**2008**	2007	2008 v2007	**2008**	2007
Revenues:					
Investment banking	**$ 135,762**	$ 208,881	(35.0)%	**51.6%**	59.3%
Institutional brokerage	**93,842**	111,451	(15.8)	**35.6**	31.6
Interest	**38,782**	46,229	(16.1)	**14.7**	13.1
Asset management	**12,984**	1,102	N/M	**4.9**	0.3
Other income/(loss)	**(2,173)**	1,523	N/M	**(0.8)**	0.4
Total revenues	**279,197**	369,186	(24.4)	**106.0**	104.8
Interest expense	**15,852**	16,766	(5.5)	**6.0**	4.8
Net revenues	**263,345**	352,420	(25.3)	**100.0**	100.0
Non-interest expenses:					
Compensation and benefits	**203,823**	206,166	(1.1)	**77.4**	58.5
Occupancy and equipment	**24,335**	23,772	2.4	**9.2**	6.8
Communications	**19,205**	18,296	5.0	**7.3**	5.2
Floor brokerage and clearance	**9,895**	11,255	(12.1)	**3.8**	3.2
Marketing and business development	**19,576**	18,125	8.0	**7.4**	5.2
Outside services	**29,220**	24,573	18.9	**11.1**	7.0
Restructuring-related expenses	**10,213**	—	N/M	**3.9**	—
Other operating expenses	**10,898**	6,464	68.6	**4.1**	1.8
Total non-interest expenses	**327,165**	308,651	6.0%	**124.2**	87.6
Income/(loss) from continuing operations before income tax expense/(benefit)	**(63,820)**	43,769	N/M	**(24.2)**	12.4
Income tax expense/(benefit)	**(28,799)**	13,858	N/M	**N/M**	3.9
Net income/(loss) from continuing operations	**(35,021)**	29,911	N/M	**(13.3)**	8.5
Discontinued operations:					
Income/(loss) from discontinued operations, net of tax	**786**	(2,811)	N/M	**0.3**	(0.8)
Net income/(loss)	**$ (34,235)**	$ 27,100	N/M	**(13.0)%**	7.7%

N/M — Not meaningful

Except as discussed below, the description of non-interest expenses from continuing operations, net revenues from continuing operations and discontinued operations as well as the underlying reasons for variances to prior year are substantially the same as the comparative quarterly discussion, and the statements in the foregoing discussion also apply.

For the nine months ended September 30, 2008, net loss, which includes both continuing and discontinued operations, totaled $34.2 million. Net revenues from continuing operations were $263.3 million for the nine months ended September 30, 2008, a decrease of 25.3 percent from the year-ago period. For the nine months ended September 30, 2008, investment banking revenues decreased 35.0 percent to $135.8 million, compared with revenues of $208.9 million in the prior-year period, due primarily to a decline in equity financing revenues. Institutional brokerage revenues decreased 15.8 percent to $93.8 million, compared with revenues of $111.5 million in the prior-year period due primarily to a $21.7 million loss on our TOB program. Net interest income for the first nine months of 2008 decreased to $22.9 million, down from $29.5 million for the first nine months of 2007, due to increased financing requirements in the first nine months of 2008 as a result of cash disbursements in late 2007 for stock buybacks and the purchases of FAMCO and Goldbond. For the nine months ended September 30, 2008, asset management fees were $13.0 million, primarily as a result of the FAMCO acquisition completed in September 2007. Other income for the nine months ended September 30, 2008, was a loss of $2.2 million, compared with income of $1.5 million for the corresponding period in the prior year, as a result of losses recorded on our principal investments. Non-interest expenses increased to $327.2 million for the nine months ended September 30, 2008, from $308.7 million in the corresponding period in the prior year, primarily as a result of restructuring-related expenses, incremental costs associated with Goldbond and FAMCO and increased deal write-off expenses related to cancelled deals.

NET REVENUES FROM CONTINUING OPERATIONS (DETAIL)

(Dollars in thousands)	For the Nine Months Ended September 30, 2008	For the Nine Months Ended September 30, 2007	2008 v2007
Net revenues:			
Investment banking			
Financing			
Equities	**$ 36,620**	$ 98,996	(63.0)%
Debt	**52,438**	63,332	(17.2)
Advisory services	**57,939**	52,702	9.9
Total investment banking	**146,997**	215,030	(31.6)
Institutional sales and trading			
Equities	**101,827**	85,049	19.7
Fixed income	**5,863**	49,937	(88.3)
Total institutional sales and trading	**107,690**	134,986	(20.2)
Asset management	**12,984**	1,102	N/M
Other income/(loss)	**(4,326)**	1,302	N/M
Total net revenues	**$ 263,345**	$ 352,420	(25.3)%

N/M — Not meaningful

For the nine months ended September 30, 2008, investment banking revenues decreased 31.6 percent to $147.0 million, compared with $215.0 million in the prior-year period. Equity financing revenues were $36.6 million, a decrease of 63.0 percent from the prior-year period, which was due to a significant decline in equity underwriting activity. During the nine months ended September 30, 2008, we completed 37 equity financings, raising $6.1 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 73 equity financings, raising $10.5 billion in capital, during the nine months ended September 30, 2007. For the nine months ended September 30, 2008, debt financing revenues declined 17.2 percent to $52.4 million, due primarily to fewer completed public finance transactions. We were the underwriter of 271 public finance issues with a par value of $6.1 billion in the first nine months of 2008, compared with 324 public finance issues with a par value of $5.1 billion in the prior-year period. Advisory services revenues increased 9.9 percent to $57.9 million for the nine months ended September 30, 2008, compared with $52.7 million in the prior-year period, due to increased merger and acquisition activity.

For the nine months ended September 30, 2008, institutional sales and trading revenues declined 20.2 percent to $107.7 million, compared with the prior-year period. Equity institutional sales and trading revenue increased 19.7 percent to $101.8 million for the nine months ended September 30, 2008, compared with $85.0 million in the prior-year period. Increased revenues from U.S. equities and incremental revenues from Hong Kong equities were offset in part by lower European equities revenues. Fixed income institutional sales and trading revenues decreased 88.3 percent to $5.9 million for the nine months ended September 30, 2008, compared with the corresponding period in 2007 due to a net loss in high yield and structured products from lower commissions and trading losses, and losses on our TOB program. Market conditions for high yield corporate bonds and structured products were difficult in the first nine months of 2008. We have liquidated certain of our inventories in high yield and structured products to reduce our exposure in this business. We no longer believe the variable rate municipal trust certificates will be a consistent source of financing for the TOB trusts and our plan is to exit this business in the coming quarters. For additional information related to our TOB program, refer to "Off-Balance Sheet Arrangements" below.

For the nine months ended September 30, 2008, other income/(loss) recorded a loss of $4.3 million, compared with income of $1.3 million in the corresponding period in 2007. The loss in the first nine months of 2008 was a result of losses recorded on our principal investments and higher interest expense resulting from increased financing requirements.

DISCONTINUED OPERATIONS

For the nine months ended September 30, 2008, discontinued operations recorded net income of $0.8 million, which primarily related to a PCS legal settlement recorded in the second quarter of 2008 offset by changes in estimates on leased office space recorded in the third quarter of 2008.

Recent Accounting Pronouncements

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

Critical Accounting Policies

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

For a full description of our significant accounting policies, see Note 2 to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2007. We believe that of our significant accounting policies, the following are our critical accounting policies.

VALUATION OF FINANCIAL INSTRUMENTS

Financial instruments and other inventory positions owned, financial instruments and other inventory positions owned and pledged as collateral, and financial instruments and other inventory positions sold, but not yet purchased, on our consolidated statements of financial condition are recorded at fair value. Unrealized gains and losses related to these financial instruments are reflected on our consolidated statements of operations.

We adopted Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157") in the first quarter of 2008. 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 defines "fair value" as 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, or an exit price. The degree of judgment used in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices in active markets generally have more pricing observability and less judgment used in measuring fair value. Conversely, financial instruments rarely traded or not quoted have less observability and are measured at fair value using valuation models that require more judgment. 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, the characteristics specific to the transaction and overall market conditions generally.

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 financial instruments. 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 our 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 us to estimate the value of the securities using the best information available. Among the factors considered by us in determining the fair value of such financial instruments are the cost, terms and liquidity of the investment, the financial condition and operating results of the issuer, the quoted market price of publicly traded securities with similar quality and yield, and other factors generally pertinent to the valuation of investments. In instances where a security is subject to transfer restrictions, the value of the security is based primarily on the quoted price of a similar security without restriction but may be reduced by an amount estimated to reflect such restrictions. In addition, even where 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, we assume that the size of positions in securities 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 currently 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 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 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.

We have categorized our financial instruments measured at fair value into a three-level classification in accordance with SFAS 157. Fair value measurements of financial instruments that use quoted prices in active markets for identical assets or liabilities are generally categorized as Level I, and fair value measurements of financial instruments that have no direct observable levels are generally categorized as Level III. The lowest level input that is significant to the fair value measurement of a financial instrument is used to categorize the instrument and reflects the judgment of management. Financial assets and liabilities presented as fair value in our consolidated statements of financial condition generally are categorized 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 1 are highly liquid instruments with quoted prices such as equities listed in active markets and certain U.S. treasury bonds.

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 and derivatives.

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 municipal bonds, certain convertible securities and certain corporate bonds.

At September 30, 2008, Level III assets for which the Company bears economic exposure were $116.3 million. During the third quarter of 2008, we recorded net sales of $19.1 million of Level III assets. Our valuation adjustments (realized and unrealized) decreased Level III assets by $18.8 million of which $10.8 million represented realized losses related to writing off our TOB residual interests. Additionally, there was $7.4 million of net transfers out of the Level III category in the third quarter 2008.

At September 30, 2008, Level III assets included the following: $50.2 million of auction rate municipal securities, of which the auctions have failed, $23.6 million of private equity investments, $36.8 million of asset-backed securities, $5.1 million of U.S. government agency securities, $4.0 million of municipal bonds, $2.5 million of convertible securities and $1.6 million of other fixed income securities. We value our auction rate municipal securities at par based upon our expectation of near-term restructurings of these securities. We principally value our private equity investments based upon market valuations received from fund managers. Our asset-backed securities principally consist of high yield and structured products secured by aircraft, which we value based upon our proprietary models and by the quoted market price of publicly traded securities with similar quality and yield.

At September 30, 2008, Level III liabilities included $2.9 million of asset-backed short securities and $4.5 million of private equity investments. During the third quarter of 2008, there was $1.9 million of net transfers out of the Level III category.

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 and recorded $19.2 million of goodwill related to the acquisition of Goldbond. At September 30, 2008, we had goodwill of $284.8 million. Of this goodwill balance, $220.0 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 more frequently in certain circumstances. 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 estimates the fair value of our two operating segments based on the following factors: a discounted cash flow model using revenue and profit forecasts, our market capitalization, 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 operating segments 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. We completed our last goodwill impairment test as of November 30, 2007, and no impairment was identified.

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. 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. In addition, estimated cash flows may extend beyond ten years and, by their nature, are difficult to determine over an extended time period. 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 operating segments, 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.

Given existing market conditions and declining revenues and profitability, the probability of impairment within a business segment has increased. Because 100 percent of goodwill is treated as a non-allowable asset for regulatory purposes, the impact of any future impairment on our net capital would not be significant, but the results of operations in that period could be materially adversely affected.

STOCK-BASED COMPENSATION

As part of our compensation to employees and directors, we use stock-based compensation, consisting of restricted stock and stock options. 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.

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, net of estimated forfeitures. Because we had historically expensed all equity awards based on the fair value method, net of estimated forfeitures, SFAS 123(R) did not have a material effect on our measurement or recognition methods for stock-based compensation.

Compensation paid to employees in the form of service-based restricted stock or stock options is generally 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, net of estimated forfeitures. The majority of our service-based restricted stock and stock 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. We consider the required service period to be the greater of the vesting period or the post-termination restricted period. We believe that our non-competition restrictions meet the SFAS 123(R) definition of a substantive service requirement.

Performance-based restricted shares are amortized on a straight-line basis over the period we expect the performance target to be met and are included in our results of operations as compensation expense, net of estimated forfeitures. The shares vest and total compensation costs 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.

Stock-based compensation granted to our non-employee directors is in the form of common shares of Piper Jaffray Companies stock and/or stock options. Stock-based compensation paid to directors is immediately vested (i.e., there is no continuing service requirement) 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, which has historically been zero. 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. 107 ("SAB 107"). SAB 107 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 16 to our consolidated financial statements.

The vesting of stock options and restricted stock generally results in windfall tax benefits or shortfalls. A windfall tax benefit is defined as any corporate income tax benefit realized upon exercise or vesting of an award that exceeds amounts previously recognized in earnings. SFAS 123 (R) states that realized windfall tax benefits are credited to additional-paid-in-capital within the consolidated statement of financial condition. Realized shortfall tax benefits (amounts which are less than that previously recognized in earnings) are first offset against the cumulative balance of windfall tax benefits, if any, and then charged directly to income tax expense. As of September 30, 2008 we had a cumulative windfall tax benefit recorded within additional paid-in capital of $2.9 million.

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. Our reserves totaled $15.7 million and $8.4 million at September 30, 2008 and December 31, 2007, respectively. A significant portion of our reserves at September 30, 2008 will be funded by an insurance receivable. 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.

Under the terms of our separation and distribution agreement with U.S. Bancorp and ancillary agreements entered into in connection with the spin-off in December 2003, we generally are responsible for all liabilities relating to our business, including those liabilities relating to our business while it was operated as a segment of U.S. Bancorp under the supervision of its management and board of directors and while our employees were employees of U.S. Bancorp servicing our business. Similarly, U.S. Bancorp generally is responsible for all liabilities relating to the businesses U.S. Bancorp retained. However, in addition to our established reserves, U.S. Bancorp agreed to indemnify us in an amount up to $17.5 million for losses that result from certain matters, primarily third-party claims relating to research analyst independence. U.S. Bancorp has the right to terminate this indemnification obligation in the event of a change in control of our company. As of September 30, 2008, approximately $12.8 million of the indemnification remained available.

As part of the asset purchase agreement for the sale of our PCS branch network to UBS that closed in August 2006, UBS agreed to assume certain liabilities of the PCS business, including certain liabilities and obligations arising from litigation, arbitration, customer complaints and other claims related to the PCS business. In certain cases, we have agreed to indemnify UBS for litigation matters after UBS has incurred costs of $6.0 million related to these matters, and as of the first quarter of 2008, we have exceeded this $6.0 million threshold. In addition, we have retained liabilities arising from regulatory matters and certain PCS litigation arising prior to the sale. The amount of exposure in excess of the $6.0 million indemnification threshold and for other PCS litigation matters deemed to be probable and reasonably estimable are included in our established reserves.

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, the U.S. Bancorp indemnity agreement, 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

Provisions for federal and state income taxes are calculated based on reported pre-tax earnings and current tax law. Such provisions differ from the amounts currently receivable or payable because certain items of income and expense are recognized in different time periods for financial reporting purposes than for income tax purposes. Significant judgment is required in evaluating uncertain tax positions. We establish reserves for uncertain income tax positions in accordance with FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement 109" ("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. 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, the 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. Under current market conditions certain inventory positions are being held in inventory longer than we originally expected. 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. This reduced our funding need and our inventory positions to a more normalized level by the end of the quarter.

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. 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 to manage our overall municipal exposure prudently relative to the overall risk framework that we maintain for the firm. 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 manage our equity capital relative to the growth of our business and offset, in part, the dilutive effect of employee equity-based compensation and expires on June 30, 2010. In the third quarter we repurchased $15 million of our shares of common stock under this authorization which equaled 444,225 shares at an average price of $33.77.

We may add capital in 2009 to facilitate certain of our growth initiatives.

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 $250 million with three 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 $98 million and $83 million and short-term bank loans of $62 million and $5 million in the third quarter of 2008 and 2007, respectively, were primarily used to finance inventory as well as customer and trade-related receivables. On September 30, 2008, we had $13 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 expires on December 26, 2008.

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 and this credit facility 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

Our contractual obligations have not materially changed from those reported in our Annual Report to Shareholders on Form 10-K for the year ended December 31, 2007.

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. Although this minimum net capital requirement is defined by the rule we maintain a significantly higher net capital position to effectively conduct our business and meet FINRA expectations. FINRA may prohibit a member firm from expanding its business or paying dividends if resulting net capital would be less than 5 percent of aggregate debit balances. Advances to affiliates, repayment of subordinated liabilities, dividend payments and other equity withdrawals are subject to certain notification and other provisions of the uniform net capital rule and the net capital rule of FINRA. We expect that these provisions will not impact our ability to meet current and future obligations. We also are subject to certain notification requirements related to withdrawals of excess net capital from our broker dealer subsidiary. At September 30, 2008, our net capital under the SEC's uniform net capital rule was $223.5 million, and exceeded the minimum net capital required under the SEC rule by $221.0 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., which is a registered United Kingdom broker dealer, is subject to the capital requirements of the U.K. Financial Services Authority ("FSA"). As of September 30, 2008, Piper Jaffray Ltd. was in compliance with the capital requirements of the FSA.

We operate 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 September 30, 2008, Piper Jaffray Asia regulated entities were in compliance with the liquid capital requirements of the Hong Kong 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 September 30, 2008 and December 31, 2007 as follows:

Expiration Per Period at September 30, 2008 *(Dollars in thousands)*	2008	2009	2010-2011	2012-2013	After 2013	Total Contractual Amount **Sept. 30, 2008**	Total Contractual Amount December 31, 2007
Match-book derivative contracts (1)(2)	$ —	$ 40,295	$ —	$ 1,680	$ 6,399,672	**$ 6,441,647**	$ 6,967,869
Derivative contracts excluding match- book derivatives (2)	—	—	25,000	21,810	1,084,427	**1,131,237**	562,706
Loan commitments	—	—	—	—	—	**—**	—
Private equity and other principal investments	—	—	—	—	—	**4,011**	4,900

(1) *Consists of interest rate swaps. We have minimal market risk related to these matched-book derivative contracts, but we do have counterparty risk up to $10 million with one major financial institution.*

(2) *We believe the fair value of these derivative contracts is a more relevant measure of the obligations because we believe the notional amount overstates the expected payout. At September 30, 2008 and December 31, 2007, the fair value of these derivative contracts approximated $29.9 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 value, or fair value, of the derivative transactions are reported in the consolidated statements of financial condition as assets or liabilities in financial instruments and other inventory positions owned and financial instruments and other inventory positions sold, but not yet purchased, as applicable. Derivatives are presented on a net-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 a legal right of offset exists.

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 an 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 at fair value the retained interests we hold in the QSPEs. 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 is 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 believe it's probable we will 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. This dislocation in the municipal securities markets 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 don't believe we can replace the existing liquidity provider who is exiting the business at economically viable pricing. In addition, we no longer believe the variable rate trust certificates will be a consistent source of funding for the trusts. As a result, we have made the decision to discontinue our TOB program in the coming quarters.

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 September 30, 2008 we are party to a total of 26 tender option bond 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 $305.1 million (par value $339.9 million) and a liability for the certificates sold by the trusts for $315.9 million as of September 30, 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 9, "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, 2007.

LOAN COMMITMENTS

We may commit to short-term "bridge-loan" financing for our clients or make commitments to underwrite corporate debt. We had no loan commitments outstanding at September 30, 2008. Bridge-loan financings that have been funded are recorded in other assets at amortized cost on the consolidated statement of financial condition. At September 30, 2008 we had two bridge-loan financings funded totaling $18.3 million. One bridge loan totaling $10 million is in default as of October 31, 2008, however, we currently believe that the value of our secured collateral exceeds $10 million and accordingly we have not recorded an impairment loss on this loan as of October 31, 2008 as the value of our secured collateral exceeds the value of our bridge loan.

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 17, "Contingencies, Commitments and Guarantees," to our consolidated financial statements included in our Annual Report to Shareholders on Form 10-K for the year ended December 31, 2007.

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, we emphasize 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 include understanding the risk profile of each trading area, consolidating risk monitoring company-wide, assisting in implementing effective hedging strategies, articulating large trading or position risks to senior management, and ensuring 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 are inherent in 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 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., Hong Kong 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, different assumptions and approximations could produce materially different VaR estimates.

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

(Dollars in thousands)	**At September 30, 2008**	At December 31, 2007
Interest Rate Risk	**$ 4,537**	$ 2,085
Equity Price Risk	**282**	448
Diversification Effect (1)	**(1,897)**	(736)
Total Value-at-Risk	**$ 2,922**	$ 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 three months ended September 30, 2008.

For the Three Months Ended September 30, 2008 *(Dollars in thousands)*	High	Low	Average
Interest Rate Risk	$4,537	$555	$1,435
Equity Price Risk	935	229	504
Diversification Effect (1)			(445)
Total Value-at-Risk	2,922	623	1,494

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

Trading losses incurred on a single day exceeded our 95% one-day VaR on four occasions during the third quarter of 2008.

The aggregate VaR as of September 30, 2008 increased compared to levels reported as of December 31, 2007 due to increased market volatility as well as the increase in municipal exposure related to the TOB program that was brought on-balance sheet at the end of the quarter. We are managing the TOB program assets as part of our overall risk management metrics and limits.

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

LIQUIDITY RISK

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

We are also exposed to liquidity risk in our day-to-day funding activities. We have the benefit of a strong capital structure given our relatively low leverage ratio of 1.9 as of September 30, 2008 and our U.S. broker dealer's net capital of $221 million as of September 30, 2008. In addition, we manage this 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 has 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 $7.6 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 put 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 putting these securities back, and instructing our clients to put these securities back, to the financial institutions that provide liquidity guarantees for these securities.

We currently act as the broker-dealer for approximately $0.4 billion 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 October 31, 2008, our inventory position was reduced to $50.2 million in these securities.

As of September 30, 2008, our tender option bond program had securitized $339.9 million in par value ($305.1 million in market value) of municipal bonds in 26 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 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 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 tender option bond program.

The municipal debt markets continue to experience increased uncertainty and volatility and we believe this may continue for several months or quarters, which may have an adverse impact on our results of operations, including declines in the value of municipal inventory positions such as TOB positions, auction rate securities, and variable rate demand notes.

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 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 are monitored daily and are collateralized. Our risk management functions have created credit risk policies establishing appropriate credit limits for our customers utilizing margin lending.

Credit exposure associated with our bridge-loan financings is monitored regularly by our market and credit risk committee. At September 30, 2008 we had one $10 million bridge-loan financing that was in default, however, we currently believe that the value of our secured collateral exceeds the value of our $10 million bridge-loan.

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. As of September 30, 2008, we estimate our counterparty exposure to Lehman to be $2.1 million.

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 are also 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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The following supplements and amends our discussion set forth under Item 3 "Legal Proceedings" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, as updated by our Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 and the quarter ended June 30, 2008.

Initial Public Offering Allocation Litigation — During the third quarter, the parties agreed to settle all actions related to this matter. This settlement is subject to definitive documentation and court approval.

Enron Litigation — During the third quarter, a claim arising out of one of the four transactions at issue was settled.

ITEM 1A. RISK FACTORS

The discussion of our business and operations should be read together with the risk factors contained in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2007 filed with the SEC, as updated in our subsequent reports on Form 10-Q filed with the SEC. These risk factors describe various risks and uncertainties to which we are or may become subject. These risks and uncertainties have the potential to affect our business, financial condition, results of operations, cash flows, strategies or prospects in a material and adverse manner.

The following information updates the risk factors set forth in our Annual Report on Form 10K.

An impairment in the carrying value of goodwill or identifiable intangible assets could negatively affect our results of operations and financial condition.

We are required to perform a test for impairment of goodwill and identifiable intangible assets at least annually, and, consistent with previous practice, we will perform this test for impairment during the fourth quarter. At September 30, 2008, we had goodwill of \$284.8 million, of which \$220.0 million is a result of the 1998 acquisition of our predecessor, Piper Jaffray Companies Inc., and its subsidiaries by U.S. Bancorp. At September 30, 2008, we had \$15.2 million of identifiable intangible assets related to the acquisition of FAMCO. If, during our annual test for impairment, we determine that an impairment to goodwill and/or identifiable intangible assets has occurred, we would be required to write down these amounts and incur a loss. The amount of any such write down could be significant and would negatively affect our results of operations and financial condition.

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

The table below sets forth the information with respect to purchases made by or on behalf of Piper Jaffray Companies or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of our common stock during the quarter ended September 30, 2008.

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

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(1)
Month #1 (July 1, 2008 to July 31, 2008)	444,225(2)	$ 33.75	444,225	$85.0 million
Month #2 (August 1, 2008 to August 31, 2008)	16,196(3)	$ 33.91	0	$85.0 million
Month #3 (September 1, 2008 to September 30, 2008)	12,269(4)	$ 38.08	0	$85.0 million
Total	472,690	$ 33.86	444,225	$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 444,225 shares of common stock repurchased on the open market pursuant to a 10b5-1 plan established with an independent agent at an average price of $33.75.*

(3) *Consists of 16,196 shares of common stock repurchased from recipients of restricted stock to pay taxes upon the vesting of the restricted stock at an average price of $33.91.*

(4) *Consists of 280 shares of common stock repurchased from recipients of restricted stock to pay taxes upon the vesting of the restricted stock at an average price of $42.10 and 11,989 shares of common stock forfeited by Armstrong Capital Ltd, in satisfaction of indemnification claims by the company in connection with its acquisition of Goldbond at a per share price of $37.99.*

ITEM 6. EXHIBITS

Exhibit Number	Description	Method of Filing
10.1	Loan Agreement (Broker-Dealer VRDN Facility), dated September 30, 2008, between Piper Jaffray & Co. and U.S. Bank National Association (excluding exhibits, which Piper Jaffray Companies agrees to furnish to the Securities Exchange Commission upon request)	Filed herewith
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.	Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.	Filed herewith
32.1	Certifications furnished pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on November 10, 2008.

PIPER JAFFRAY COMPANIES

By /s/ Andrew S. Duff
Its Chairman and CEO

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

Exhibit Index

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31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.	Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.	Filed herewith
32.1	Certifications furnished pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith

LOAN AGREEMENT (BROKER-DEALER VRDN FACILITY)

THIS LOAN AGREEMENT (BROKER-DEALER VRDN FACILITY) (this "Agreement") is made and entered into as of September 30, 2008, by and between: **PIPER JAFFRAY & CO.**, a Delaware corporation ("Borrower"); and **U.S. BANK NATIONAL ASSOCIATION**, a national banking association ("Lender"); and has reference to the following facts and circumstances:

A. Borrower has applied for a revolving line of credit from Lender in the principal amount of up to $250,000,000.00 which shall be secured by certain variable rate demand notes.

B. Lender is willing to make said revolving line of credit available to Borrower upon, and subject to, the terms, provisions and conditions hereinafter set forth.

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

1. Definitions. As used in this Agreement, the following terms shall have the following respective meanings (and such meanings shall be equally applicable to both the singular and plural form of the terms defined, as the context may require):

Advance shall mean each loan advance made hereunder by Lender to Borrower.

Applicable Margin shall have the meaning described in Exhibit C attached hereto.

Banking Day shall mean any day on which Lender is open for business at its principal offices in St. Louis, Missouri and Minneapolis, Minnesota.

BONYM shall mean The Bank of New York Mellon, formerly known as The Bank of New York, a New York banking corporation.

Borrowing Base shall mean the sum of the values of the following: (a) Pledged Securities consisting of Variable Rate Demand Notes on Borrower's books as determined in accordance with generally accepted accounting principles, multiplied by the applicable percentage(s) described in Exhibit B attached hereto; and (b) Pledged Securities consisting of Other Eligible Securities on Borrower's books as determined in accordance with generally accepted accounting principles, multiplied by the applicable percentage(s) described in Exhibit B attached hereto.

Collateral Pledge Agreement shall have the meaning set forth in Section 9(c).

Collateral Summary shall have the meaning set forth in Section 9(a).

Control Agreement shall mean the Collateral Account Control Agreement dated September 9, 2007, executed by Lender, as Pledgor, and BONYM, as Securities Intermediary, as amended.

Cost of Funds Rate shall mean the rate at which Lender would be able to borrow overnight funds of in the Money Markets, adjusted for any reserve requirement and any subsequent costs arising from a change in government regulation; such rate rounded up to the nearest one-eighth percent; and the term.

Credit Documents shall have the meaning set forth in Section 11(a).

Event of Default shall have the meaning set forth in Section 12.

Facility Amount shall mean Two Hundred Fifty Million Dollars ($250,000,000.00).

FOCUS Report shall mean each Financial and Operational Combined Uniform Single (FOCUS) Report (Securities and Exchange Commission form X-17A-5).

Money Market” shall mean one or more wholesale funding markets available to and selected by Lender, including negotiable certificates of deposit, commercial paper, Eurodollar deposits, bank notes, federal funds, interest rate swaps or others.

New York Banking Day means any day (other than a Saturday or Sunday) on which commercial banks are open for business in New York, New York.

Note shall mean the Revolving Credit Note (Broker-Dealer VRDN Facility) dated the date hereof, executed by Borrower and payable to the order of Lender in the principal amount of up to $250,000,000.00, in the form attached hereto and incorporated by reference as Exhibit A.

Other Eligible Securities shall mean the securities held by BONYM as “Collateral” in the “Account” (as those terms are defined in the Control Agreement) and the categories of which are described on the schedule attached hereto as Exhibit B, which such Exhibit B shall be amended upon the mutual agreement of Borrower and Lender.

Pledged Securities shall mean, collectively, at any time, all Variable Rate Demand Notes and Other Eligible Securities described in any Collateral Summary(ies) or in which a security interest is otherwise granted to Lender under any provision of the Collateral Pledge Agreement; provided that (a) all Pledged Securities consisting of Variable Rate Demand Notes shall have credit enhancements consisting of letters of credit or standby bond purchase agreements provided either by Lender or by other credit enhancement providers acceptable to Lender as described in Exhibit B attached hereto; and (b) Lender reserves the right at anytime to require Borrower to substitute any Pledged Securities with replacement Pledged Securities acceptable to Lender in its sole discretion if such Pledged Securities have lost value as the result of market conditions.

Regulatory Capital shall mean “Net Capital” as calculated by Borrower, and set forth on line 10 of the “Computation of Net Capital” section of Part II of each monthly FOCUS Report of Borrower.

Termination Date shall mean the earlier of September 25, 2009, or the date on which this Agreement is terminated pursuant to Section 12.

Variable Rate Demand Notes shall mean variable rate demand notes held or to be purchased by Borrower.

2. Credit Facility. Borrower may request Advances and unless an Event of Default has occurred and is continuing, Lender shall make the Advances so requested, from time to time during the period from the date hereof until the Termination Date. Interest shall accrue on each Advance as described in Section 6 below. Lender will refuse to make any requested Advance to Borrower that would cause the aggregate principal amount of: (a) the Advances outstanding hereunder to exceed the Facility Amount; (b) the Advances outstanding hereunder secured by (i) Variable Rate Demand Notes which have credit enhancements provided by credit enhancement providers other than Lender and/or (ii) Other Eligible Securities, to exceed $125,000,000; and (c) the Advances outstanding hereunder to exceed the limits set forth the Borrowing Base; provided that in no instance shall the principal amount of the Advances exceed the amount permitted under any applicable law, regulation, rule or direction of any applicable regulatory authority. Borrower may, upon five (5) Banking Days’ prior written notice to Lender, terminate the credit facility hereunder at any time, or reduce the Facility Amount from time to time; provided, however, that at no time shall the Facility Amount be reduced to an amount less than the aggregate principal balance of all outstanding Advances, and any such termination or reduction shall be permanent and Borrower shall have no right to thereafter reinstate or increase, as the case may be, the credit facility hereunder or the Facility Amount.

3. Procedures for Advances. The following provisions shall govern certain aspects of any Advance that Borrower may request under this Agreement:

(a) Requests for Advances. Borrower may request an Advance by written notice or by telephonic, facsimile or electronic notice. All requests for Advances shall be directed to the individuals designated for such purpose by Lender from time to time. Each request by Borrower for an Advance shall be accompanied by further documents or information as required by Lender, including but not limited to, documents that evidence that the applicable Pledged Securities have been assigned or transferred to Borrower and that Borrower is the current owner of such Pledged Securities, and that such Pledged Securities have been delivered to Lender, or are in the possession of or registered in the name of The Depository Trust Company or other clearing corporation or a custodian bank or nominee thereof (including BONYM).

(b) Authorized Persons. Upon request, Borrower shall provide Lender with the names, titles and signatures of all individuals designated by Borrower to request Advances under this Agreement Borrower shall immediately notify Lender if any designated individuals of Borrower are no longer employed by Borrower, or are no longer authorized to request Advances under this Agreement; and if any new and/or additional individuals are designated by Borrower to request Advances under this Agreement.

(c) Disbursements. Lender shall disburse the amount of each Advance by crediting the amount of that Advance to deposit account no. 150250032516 maintained by Borrower at Lender or by the transfer of immediately available funds, or otherwise, all as instructed by Borrower in its request for the Advance.

4. The Note. Borrower's obligation to repay all Advances shall be evidenced by the Note which shall be duly executed by Borrower and delivered to Lender.

5. Payment of Principal and Prepayments. The unpaid principal balance of the Note shall be due and payable in full on the Termination Date. Borrower may prepay all or any part of the Note at any time, without premium or penalty, but any voluntary prepayment must include interest on the amount prepaid.

6. Interest. Borrower shall pay interest to Lender on the aggregate unpaid principal amount of all Advances from time to time outstanding at an annual rate equal to the Applicable Margin plus the Cost of Funds Rate. Lender's internal records of applicable interest rates shall be determinative in the absence of manifest error. The amount of interest accrued on the Note in each month shall be payable on the first Banking Day of the next month and also on the Termination Date. After the Termination Date or during the continuance of an Event of Default, Borrower shall pay interest to Lender on the aggregate and unpaid principal amount of all Advances from time to time outstanding at an annual rate equal to Two Percent (2%) over the applicable interest rate(s). Borrower agrees to pay to Lender as additional interest hereunder, upon demand, the amount of any increased cost or reduced rate of return applicable to the Advances resulting from change or change in application to Lender of any law, rule, regulation or direction of any regulatory agency, including without limitation tax, duty, reserve (including, without limitation, any such item imposed by the Board of Governors of the Federal Reserve System) or similar requirement imposed on Lender, its assets or any deposits or credit extended by or to Lender.

7. Commitment Fee. From and including the date of this Agreement to but excluding the Termination Date, Borrower shall pay a nonrefundable commitment fee as described in Exhibit C attached hereto.

8. Payments. All payments under the Note shall be made in immediately available funds, by debiting a deposit account of Borrower at Lender, by wire transfer or otherwise. All payments by Borrower and all proceeds of any Pledged Securities that are foreclosed on by Lender shall be applied first to costs of collection, next to any other amounts owed under Section 13 below, next to accrued interest on the Note and finally to the principal balance of the Note. If any payment of principal of or interest on the Note, or any amount payable under Section 13 below, becomes due and payable on a day which is not a Banking Day, such payment shall be made on the next succeeding Banking Day and such extension of time shall in such case be included in computing interest in connection with such payment.

9. Security.

(a) Upon any request for an Advance, Borrower will simultaneously deliver to Lender a summary of the Pledged Securities in form and substance satisfactory to Lender (a "Collateral Summary"), which shall identify the Pledged Securities, shall include the values of such Pledged Securities (as initially determined by Borrower), and which shall be sufficient to enable Lender to objectively determine the identity of the Pledged Securities. The total value of the Pledged Securities as summarized shall be such that the aggregate principal amount of the Advances, before and after giving effect to the requested Advance, shall not exceed the Borrowing Base. By requesting an Advance, Borrower shall be deemed to represent and covenant that the summarized Pledged Securities are held by Borrower, free and clear of any lien, claim or encumbrance other than any security interest in favor of Lender.

(b) Borrower agrees that in all instances the total value of the Pledged Securities will be sufficient to support the outstanding Advances. If a change in market conditions or the status of an issuer reduces the total value of any Pledged Securities below the level necessary to collateralize the Advances, Borrower shall immediately either (i) pledge additional Pledged Securities (acceptable to Lender in its sole discretion) sufficient to restore the total value of the Pledged Securities to a level such that the Borrowing Base equals or exceeds the aggregate amount of outstanding Advances, or (ii) pay the Advances to the extent required to reduce the aggregate amount of outstanding Advances to an amount not in excess of the Borrowing Base. If any Variable Rate Demand Notes have been pledged and delivered to Lender for more than fourteen (14) days, such Variable Rate Demand Notes shall no longer be included in the Borrowing Base, and Borrower shall immediately either (a) pledge substitute Pledged Securities (acceptable to Lender in its sole discretion) sufficient to maintain the total value of the Pledged Securities at a level such that the Borrowing Base equals or exceeds the aggregate amount of outstanding Advances, or (b) pay the applicable Advance(s) to the extent required to reduce the aggregate amount of outstanding Advances to an amount not in excess of the Borrowing Base.

(c) The security interests granted by Borrower to Lender and Borrower's duties with respect thereto are set forth in more detail in the Collateral Pledge Agreement (Broker-Dealer VRDN Facility) dated as of the date hereof (the "Collateral Pledge Agreement").

10. Minimum Regulatory Capital. Borrower shall at all times have Regulatory Capital of at least $180,000,000 and shall have fifteen (15) days from the date of receipt of any FOCUS Report which indicates that there is a violation of this covenant to cure such violation; provided however no cure period shall exist if any such violation is the direct result of a decrease in total ownership equity (as reflected in Part II, line 30 of any such FOCUS Report).

11. Conditions Precedent to Advances. In addition to requirements for the making of any Advance set forth elsewhere in this Agreement, and without limiting the discretion of Lender to make or refuse to make any Advance, Lender shall not make any Advance hereunder unless and until Lender has received all of the following, in form and substance satisfactory to Lender:

(a) This Agreement, the Note, the Collateral Pledge Agreement, and the Control Agreement (collectively, along with the UCC Financing Statement referred to below, the "Credit Documents"), all properly executed;

(b) A Uniform Commercial Code Financing Statement in a form acceptable for filing with the Delaware Secretary of State;

(c) The following organizational information of Borrower: (i) a copy of the resolutions adopted by the board of directors of Borrower, authorizing the execution, delivery and performance of the Credit Documents and certified by the Secretary of Borrower; (ii) copies of the Certificate of Incorporation and By-Laws of Borrower, certified by its Secretary as being true and correct copies thereof; (iii) a certificate signed by the Secretary of Borrower as to the incumbency and signature of the person or persons authorized to execute and deliver the Credit Documents and all other documents referred to in this Agreement and make requests for advances hereunder; and (iv) a certificate of good standing issued by the Delaware Secretary of State;

(d) UCC search results for Borrower from the Delaware Secretary of State;

(e) An opinion of counsel from Faegre & Benson LLP, counsel for Borrower;

(f) Payment to Lender of an advisory fee as described in Exhibit C attached hereto; and

(g) Such other documents and information as reasonably requested by Lender.

12. Events of Default; Remedies. The occurrence of any one of the following shall constitute a default (each an "Event of Default") by Borrower under this Agreement: (a) if Borrower shall fail to pay any (i) principal amount of any Advance, when due and payable, or declared due and payable, or (ii) interest on any Advance within five (5) days after the date on which such payment of interest shall become due and payable, or declared due and payable; (b) if Borrower shall fail to pledge additional Pledged Securities as required under Section 9(b) above; (c) if Borrower shall default in the performance or observance of any other of its obligations under this Agreement or any of the other Credit Documents, and such default shall remain uncured for a period of fifteen (15) days after notice from Lender; (d) if any representation, warranty, statement, report or certificate made or delivered by Borrower, or any of its officers, employees or agents, to Lender is not true and correct in any material respect when made or deemed made; (e) If Borrower shall (i) become insolvent, (ii) not be paying its debts generally as such debts become due, (iii) make an assignment for the benefit of creditors or cause or suffer any of their respective assets to come within the possession of any receiver, trustee or custodian, (iv) have a petition filed by or against Borrower under the Bankruptcy Reform Act of 1978, as amended, or any similar law or regulation, (v) have any of its assets attached, seized or levied upon, or (vi) otherwise become the subject of any insolvency or creditor enforcement proceedings, provided however, that any involuntary petition or other proceeding against Borrower shall not be an Event of Default unless an order for relief is entered or such proceeding remains undismissed for at least sixty (60) days; (f) if Borrower shall default in the payment, when due, whether by acceleration or otherwise, of any indebtedness of Borrower in excess of $1,000,000, and such default is declared and is not cured within the time, if any, specified there for in any agreement governing the same, or any event or condition shall occur which results in the acceleration of the maturity of any such Indebtedness of Borrower; (g) if one or more judgments or decrees shall be entered against Borrower involving, individually, or in the aggregate, a liability of $1,000,000 or more and such judgments or decrees shall not have been satisfied, vacated, discharged or stayed pending appeal within thirty (30) days after the entry thereof; or (h) if this Agreement, the Note, or any other Credit Documents executed by Borrower at any time after their respective execution and delivery, shall cease to be in full force and effect, shall be declared null and void, shall be revoked or terminated or shall be subject to any contest by Borrower as to their validity and/or enforceability, for any reason, or if Borrower shall for any reason deny any further liability to Lender hereunder and thereunder. Upon the occurrence and during the continuance of any Event of Default, Borrower may not request any Advance under this Agreement, Lender may then forthwith cease making Advances to or for the benefit of Borrower under this Agreement without any notice to Borrower, and Lender may terminate this Agreement; provided that this Agreement shall automatically terminate, and all amounts Borrower owes Lender hereunder and under the Note shall become due, without any notice should an order for relief be entered with respect to Borrower under the United States Bankruptcy Code. Upon an Event of Default, with notice by Lender to or demand by Lender of Borrower, Lender may declare all Advances to be immediately due and payable. Lender, in its sole discretion, upon the occurrence of and during the continuance of an Event of Default may exercise one or more of the rights and remedies accruing to Lender under this Agreement or the other Credit Documents, and/or applicable law upon default by Borrower, including, without limitation, the right to set off and/or reduce to cash and apply to the payment of any of Borrower's obligations, any monies, reserves, deposits, certificates of deposit, deposit accounts and interest and dividends thereon, securities, investment property, cash and other property in the possession of or under the control of Lender or any of Lender's affiliates.

13. Fees and Expenses. Borrower agrees, whether or not any Advance is made under this Agreement, to pay Lender upon demand for (a) all out-of-pocket costs and expenses and all reasonable attorneys' fees incurred by Lender in connection with the preparation, documentation, negotiation and/or execution of this Agreement and the other Credit Documents, (b) all recording, filing and search fees and expenses incurred by Lender in connection with this Agreement and the other Credit Documents, (c) all out-of-pocket costs and expenses and all reasonable attorneys' fees incurred by Lender in connection with (i) the preparation, documentation, negotiation and execution of any amendment, modification, extension, renewal or restatement of this Agreement and/or any other Credit Document, and (ii) the preparation of any waiver or consent under this Agreement and/or under any other Credit Document, and (d) if an Event of Default occurs, all out-of-pocket costs and expenses and all reasonable attorneys' fees incurred by Lender in connection with such Event of Default and collection and other enforcement proceedings resulting therefrom. Borrower's obligations under this Section 11 shall survive the Termination Date.

14. Reporting Requirements and Inspections. Until the Termination Date and thereafter until the Note and all other obligations of Borrower under this Agreement are paid in full, in addition to the Collateral Summaries and other information described in Section 8 above, Borrower will provide to Lender: (a) at Lender's request, an updated, detailed list of the Pledged Securities; (b) within ten (10) days after filing, copies of all monthly FOCUS Reports of Borrower; (c) within ninety (90) days after the end of its fiscal year, audited financial statements of Borrower, its parent and their subsidiaries which shall include, but not be limited to, a balance sheet, income and expense statement and statement of retained earnings; and (d) from time to time such other information and reports as Lender may reasonably request. Borrower shall, at all times, maintain accurate books and records covering all collateral subject to the Collateral Pledge Agreement, and Lender shall have the right by or through any of its representatives, attorneys or accountants to audit those books and records, upon reasonable notice to Borrower.

15. Miscellaneous. The following provisions shall also be applicable to Borrower's obligations to Lender under this Agreement and the Note:

(a) Amendments; Waivers. No amendment or waiver of any provision of this Agreement, nor consent to any departure by Borrower therefrom, shall in any event be effective unless the same shall be in writing and signed by Lender and Borrower, and then such amendment, waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. No failure on Lender's part to exercise, and no delay in Lender's exercising, any right under this Agreement, the Note, the Collateral Pledge Agreement or any other Credit Document shall operate as a waiver thereof; nor shall any single or any partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right. The remedies provided in this Agreement are cumulative and not exclusive of any remedies provided by law.

(b) Governing Law; Binding Effect. This Agreement shall be deemed to be made under and shall be governed by and construed in accordance with the internal law, and not the law of conflicts, of the State of Minnesota. This Agreement shall be binding on Borrower, its representatives, successors and assigns, and shall inure to the benefit of, and be enforceable by, Lender, its successors, transferees and assigns. Notwithstanding the foregoing, Borrower may not assign or otherwise transfer any of its rights or delegate any of its obligations or duties under this Agreement without the prior written consent of Lender.

(c) Lender Records. Lender shall maintain records as to advances and payments made, and interest accrued on, the Note, and said records shall be presumed accurate until the contrary shall have been established.

(d) Captions. The captions or headings in this Agreement are for convenience only and in no way define, limit or describe the scope or intent of any provision of this Agreement.

(e) Regulations T and U. Borrower is subject to the provisions of Regulation T promulgated by the Board of Governors of the Federal Reserve System and does not extend or maintain credit to or for customers except in accordance with the provisions of such Regulation T. Borrower is an "exempted borrower" as defined by Regulation U. Upon request, Borrower shall provide to Bank a Certificate confirming that Borrower is in compliance with the provisions of Regulation T and U.

(f) Compliance With Other Regulations: Borrower shall at all times comply with all present and future laws, rules and regulations applicable to it in the operation of its business, including but not limited to all rules and regulations of the Securities and Exchange Commission, the National Association of Securities Dealers, the Securities Investor Protection Corporation and any self-regulatory organization of which Borrower is a member. Borrower shall deliver to Bank, immediately upon its receipt or transmission thereof, any notices to or from any such organization that Borrower is in violation of any applicable net capital rule, including but not limited to Rule 15c3-1 of the Securities and Exchange Commission.

(g) Notices. All notices, requests and other communications to any party hereunder shall be in writing (including bank wire, e-mail, telecopier or similar writing) and shall be given to such party at its address or telecopier number set forth on the signature pages hereof or such other address or telecopier number as such party may hereafter specify. Each such notice, request or other communication shall be effective (a) if given by telecopier, when such telecopier is transmitted to the telecopier number specified in this Section and the appropriate answerback is received, (b) if given by mail, 72 hours after such communication is deposited in the mails with first class postage prepaid, addressed as aforesaid or (c) if given by any other means, when delivered at the address specified in this Section.

(h) Entire Agreement. The Credit Documents embody the entire agreement and understanding between Lender and Borrower with respect to the subject matter hereof, and supersede all prior agreements and understandings relating to the subject matter hereof.

16. Termination. Unless terminated sooner by Lender pursuant to Section 12 above, this Agreement will terminate on September 25, 2009.

17. Consent to Jurisdiction; Waiver of Jury Trial. BORROWER HEREBY IRREVOCABLY (a) SUBMITS TO THE NON-EXCLUSIVE JURISDICTION OF ANY MINNESOTA STATE COURT SITTING IN THE COUNTY OF HENNEPIN, OR ANY UNITED STATES OF AMERICA COURT SITTING IN THE DISTRICT OF MINNESOTA, AS LENDER MAY ELECT, IN ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY RELATED LOAN DOCUMENT, (b) AGREES THAT ALL CLAIMS IN RESPECT TO SUCH SUIT, ACTION OR PROCEEDING MAY BE HELD AND DETERMINED IN ANY OF SUCH COURTS, (c) WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH BORROWER MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT, (d) WAIVES ANY CLAIM THAT SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM AND (e) WAIVES ALL RIGHTS OF ANY OTHER JURISDICTION WHICH BORROWER MAY NOW OR HEREAFTER HAVE BY REASON OF ITS PRESENT OR SUBSEQUENT DOMICILES. **BORROWER AND LENDER HEREBY IRREVOCABLY WAIVE THE RIGHT TO TRIAL BY JURY WITH RESPECT TO ANY ACTION IN WHICH BORROWER AND LENDER ARE PARTIES RELATING TO OR ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT OR ANY RELATED LOAN DOCUMENTS.**

IN WITNESS WHEREOF, Lender and Borrower have caused this Agreement to be duly executed by their duly authorized officers as of the date first written hereinabove.

(SIGNATURES ON FOLLOWING PAGE)

SIGNATURE PAGE-
LOAN AGREEMENT (BROKER-DEALER VRDN FACILITY)

Borrower:

PIPER JAFFRAY & CO.

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

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

800 Nicollet Mall, J09S04
Minneapolis, Minnesota 55402
Attention: Treasury
(612) 303-1316 (FAX)
firmfund@pjc.com (e-mail)

Lender:

U.S. BANK NATIONAL ASSOCIATION

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

One US Bank Plaza (Mail Code SL-TW-11SI)
St. Louis, Missouri 63101
Attention: Broker Dealer Division
(314) 418-8394 (FAX)
katherine.k.miller@usbank.com (e-mail)

EXHIBIT 31.1

CERTIFICATIONS

I, Andrew S. Duff, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Piper Jaffray Companies;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 10, 2008

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

EXHIBIT 31.2

CERTIFICATIONS

I, Debbra L. Schoneman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Piper Jaffray Companies;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 10, 2008

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

EXHIBIT 32.1

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

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

Dated: November 10, 2008

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

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