



FORM 10-Q

PIPER JAFFRAY COMPANIES - PJC

Filed: July 31, 2009 (period: June 30, 2009)

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

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

Form 10-Q

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

For the Quarterly Period Ended June 30, 2009

OR

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

For the transition period from _____ to _____

Commission File No. 001-31720

PIPER JAFFRAY COMPANIES

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of
incorporation or organization)

30-0168701

(IRS Employer Identification No.)

**800 Nicollet Mall, Suite 800
Minneapolis, Minnesota**

(Address of principal executive offices)

55402

(Zip Code)

(612) 303-6000

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer: Accelerated filer: Non-accelerated filer: Smaller reporting company:
(Do not check if a 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 July 24, 2009, the registrant had 19,673,187 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

	June 30, 2009	December 31, 2008
<i>(Amounts in thousands, except share data)</i>	<i>(Unaudited)</i>	
Assets		
Cash and cash equivalents	\$ 42,504	\$ 49,848
Cash and cash equivalents segregated for regulatory purposes	1,006	20,005
Receivables:		
Customers	74,662	39,228
Brokers, dealers and clearing organizations	91,005	122,120
Deposits with clearing organizations	33,905	28,471
Securities purchased under agreements to resell	159,462	65,237
Securitized municipal tender option bonds	28,843	84,586
Financial instruments and other inventory positions owned	409,741	380,812
Financial instruments and other inventory positions owned and pledged as collateral	129,600	112,023
Total financial instruments and other inventory positions owned	539,341	492,835
Fixed assets (net of accumulated depreciation and amortization of \$63,167 and \$59,485, respectively)	18,218	20,034
Goodwill	160,436	160,582
Intangible assets (net of accumulated amortization of \$9,458 and \$8,230, respectively)	13,295	14,523
Other receivables	52,274	36,951
Other assets	144,972	185,738
	\$ 1,359,923	\$ 1,320,158
Liabilities and Shareholders' Equity		
Short-term bank financing	\$ 63,000	\$ 9,000
Payables:		
Customers	46,000	34,188
Checks and drafts	3,502	4,397
Brokers, dealers and clearing organizations	12,750	10,049
Securities sold under agreements to repurchase	61,298	106,372
Tender option bond trust certificates	28,720	87,982
Financial instruments and other inventory positions sold, but not yet purchased	180,344	143,213
Accrued compensation	80,815	98,150
Other liabilities and accrued expenses	105,385	78,828
Total liabilities	581,814	572,179
Shareholders' equity:		
Common stock, \$0.01 par value:		
Shares authorized: 100,000,000 at June 30, 2009 and December 31, 2008;		
Shares issued: 19,503,488 at June 30, 2009 and 19,498,488 at December 31, 2008;		
Shares outstanding: 16,110,685 at June 30, 2009 and 15,684,433 at December 31, 2008	195	195
Additional paid-in capital	803,319	808,358
Retained earnings	133,675	124,824
Less common stock held in treasury, at cost: 3,392,803 shares at June 30, 2009 and 3,814,055 shares at December 31, 2008	(159,607)	(183,935)
Other comprehensive income/(loss)	527	(1,463)
Total shareholders' equity	778,109	747,979
Total liabilities and shareholders' equity	\$ 1,359,923	\$ 1,320,158

See Notes to Consolidated Financial Statements

Piper Jaffray Companies
Consolidated Statements of Operations
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
<i>(Amounts in thousands, except per share data)</i>				
Revenues:				
Investment banking	\$ 62,150	\$ 32,184	\$ 86,500	\$ 87,449
Institutional brokerage	60,852	51,196	115,879	81,008
Interest	8,973	13,114	16,261	28,273
Asset management	3,240	4,697	6,249	8,670
Other income/(loss)	(950)	2,356	(4,549)	772
Total revenues	<u>134,265</u>	<u>103,547</u>	<u>220,340</u>	<u>206,172</u>
Interest expense	<u>1,975</u>	<u>5,826</u>	<u>4,168</u>	<u>12,704</u>
Net revenues	<u>132,290</u>	<u>97,721</u>	<u>216,172</u>	<u>193,468</u>
Non-interest expenses:				
Compensation and benefits	79,377	61,087	129,701	120,364
Occupancy and equipment	7,680	8,133	14,198	16,243
Communications	5,430	5,869	11,529	12,608
Floor brokerage and clearance	3,232	3,899	6,114	6,553
Marketing and business development	3,419	7,381	7,864	13,477
Outside services	7,415	11,308	14,934	19,950
Restructuring-related expenses	3,572	729	3,572	3,583
Other operating expenses	<u>3,747</u>	<u>6,604</u>	<u>6,298</u>	<u>9,068</u>
Total non-interest expenses	<u>113,872</u>	<u>105,010</u>	<u>194,210</u>	<u>201,846</u>
Income/(loss) from continuing operations before income tax expense/(benefit)	18,418	(7,289)	21,962	(8,378)
Income tax expense/(benefit)	<u>6,842</u>	<u>(5,776)</u>	<u>13,111</u>	<u>(5,471)</u>
Net income/(loss) from continuing operations	<u>11,576</u>	<u>(1,513)</u>	<u>8,851</u>	<u>(2,907)</u>
Discontinued operations:				
Income from discontinued operations, net of tax	<u>-</u>	<u>1,439</u>	<u>-</u>	<u>1,439</u>
Net income/(loss)	<u>\$ 11,576</u>	<u>\$ (74)</u>	<u>\$ 8,851</u>	<u>\$ (1,468)</u>
Net income applicable to common shareholders	<u>\$ 9,475</u>	<u>N/A</u>	<u>\$ 7,269</u>	<u>N/A</u>
Earnings per basic common share				
Income/(loss) from continuing operations	\$ 0.59	\$ (0.09)	\$ 0.45	\$ (0.18)
Income from discontinued operations	<u>-</u>	<u>0.09</u>	<u>-</u>	<u>0.09</u>
Earnings per basic common share	\$ 0.59	\$ -	\$ 0.45	\$ (0.09)
Earnings per diluted common share				
Income/(loss) from continuing operations	\$ 0.59	\$ (0.09)	\$ 0.45	\$ (0.18)
Income from discontinued operations	<u>-</u>	<u>0.09</u> (1)	<u>-</u>	<u>0.09</u> (1)
Earnings per diluted common share	\$ 0.59	\$ -	\$ 0.45	\$ (0.09)
Weighted average number of common shares outstanding				
Basic	16,104	16,072	15,987	15,951
Diluted	16,117	16,072 (1)	15,995	15,951 (1)

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

N/A - Not applicable as no allocation of income was made due to loss position.

See Notes to Consolidated Financial Statements

Piper Jaffray Companies
Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30,	
	2009	2008
<i>(Dollars in thousands)</i>		
Operating Activities:		
Net income/(loss)	\$ 8,851	\$ (1,468)
Adjustments to reconcile net loss to net cash provided by/(used in) operating activities:		
Depreciation and amortization of fixed assets	3,540	4,755
Deferred income taxes	8,607	6,294
Stock-based compensation	20,479	13,993
Amortization of intangible assets	1,228	1,311
Decrease/(increase) in operating assets:		
Cash and cash equivalents segregated for regulatory purposes	18,999	(7,000)
Receivables:		
Customers	(36,864)	25,991
Brokers, dealers and clearing organizations	31,021	23,132
Deposits with clearing organizations	(5,434)	(3,851)
Securities purchased under agreements to resell	(94,225)	(30,143)
Securitized municipal tender option bonds	55,743	1,873
Net financial instruments and other inventory positions owned	(9,244)	(63,247)
Other receivables	(15,099)	(3,988)
Other assets	32,946	(6,795)
Increase/(decrease) in operating liabilities:		
Payables:		
Customers	11,826	(22,588)
Checks and drafts	(895)	(2,201)
Brokers, dealers and clearing organizations	4,423	75,430
Securities sold under agreements to repurchase	(441)	3,015
Tender option bond trust certificates	(59,262)	(1,631)
Accrued compensation	(11,531)	(81,119)
Other liabilities and accrued expenses	26,393	(21,000)
Net cash used in operating activities	(8,939)	(89,237)
Investing Activities:		
Purchases of fixed assets, net	(1,558)	(509)
Net cash used in investing activities	(1,558)	(509)
Financing Activities:		
Decrease in securities sold under agreements to repurchase	(44,633)	(181,514)
Increase in short-term bank financing	54,000	161,500
Repurchase of common stock	(4,242)	(8,192)
Excess/(reduced) tax benefits from stock-based compensation	(2,941)	792
Proceeds from stock option transactions	-	20
Net cash provided by/(used in) financing activities	2,184	(27,394)
Currency adjustment:		
Effect of exchange rate changes on cash	969	23
Net decrease in cash and cash equivalents	(7,344)	(117,117)
Cash and cash equivalents at beginning of period	49,848	150,348
Cash and cash equivalents at end of period	\$ 42,504	\$ 33,231
Supplemental disclosure of cash flow information -		
Cash paid/(received) during the period for:		
Interest	\$ 490	\$ 13,095
Income taxes	\$ (36,688)	\$ (5,028)
Non-cash financing activities -		
Issuance of common stock for retirement plan obligations:		
134,700 shares and 90,140 shares for the six months ended June 30, 2009 and 2008, respectively	\$ 3,756	\$ 3,704
Issuance of restricted common stock for annual equity award:		
585,198 shares and 1,237,756 shares for the six months ended June 30, 2009 and 2008, respectively	\$ 16,331	\$ 50,859

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 investment products; Piper Jaffray Financial Products Inc., Piper Jaffray Financial Products II Inc. and Piper Jaffray Financial Products III Inc., entities that facilitate customer derivative and inventory hedging transactions; and other immaterial subsidiaries. Piper Jaffray Companies and its subsidiaries (collectively, the “Company”) operate as one reporting segment providing investment banking services, institutional sales, trading and research services, and asset management services. As discussed more fully in Note 4, the Company completed the sale of its Private Client Services branch network and certain related assets to UBS Financial Services, Inc., a subsidiary of UBS AG (“UBS”), on August 11, 2006, thereby exiting the Private Client Services (“PCS”) business.

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, 2008.

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.

Effective June 30, 2009, the Company adopted Statement of Financial Accounting Standards No. 165, “Subsequent Events” (“SFAS 165”). Under SFAS 165, subsequent events are defined as events or transactions that occur after the balance sheet date, but before the financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet. Unrecognized subsequent events are events or transactions that provide evidence about conditions that did not exist at the date of the balance sheet, but arose before the financial statements are issued. Recognized subsequent events are recorded in the consolidated financial statements and unrecognized subsequent events are excluded from the consolidated financial statements but disclosed in the notes to the consolidated financial statements if their effect is material. In accordance with SFAS 165, the Company evaluated subsequent events through July 31, 2009, the date the financial statements were issued and no events or transactions occurred.

Note 2 Summary of Significant Accounting Policies

Refer to the Company’s Annual Report on Form 10-K for the year ended December 31, 2008, for a full description of the Company’s significant accounting policies. Changes to the Company’s significant accounting policies are described below.

Earnings Per Share

Effective January 1, 2009, the Company adopted FASB Staff Position (“FSP”) EITF No. 03-6-1, “Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities” (“FSP EITF 03-6-1”). Under FSP EITF 03-6-1, unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and should be included in the earnings per share calculation under the two-class method. The Company grants restricted stock as part of its share-based compensation program, which entitle the recipients to receive nonforfeitable dividends or dividend equivalents during the vesting period.

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Basic earnings per common share is computed by dividing net income/(loss) applicable to common shareholders by the weighted average number of common shares outstanding for the period. Net income/(loss) applicable to common shareholders represents net income/(loss) reduced by the allocation of earnings to participating securities. Losses are not allocated to participating securities. Diluted earnings per common share is calculated by adjusting the weighted average outstanding shares to assume conversion of all potentially dilutive stock options.

Note 3 *Recent Accounting Pronouncements*

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) was required for combinations after December 15, 2008. The Company will apply the standard to any business combinations within the scope of SFAS 141(R).

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 is measured at fair value, with any gain or loss recognized in earnings. SFAS 160 was effective for fiscal years beginning after December 15, 2008. The provisions of SFAS 160 are to be applied prospectively, except for the presentation and disclosure requirements which are to be applied retrospectively to all periods presented. The adoption of SFAS 160 did not have a material effect on the consolidated financial statements of the Company.

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, results of operations and cash flows. SFAS 161 was effective for interim periods beginning after November 15, 2008. Since SFAS 161 impacts the Company’s disclosures and not its accounting treatment for derivative instruments and hedging activities, the Company’s adoption of SFAS 161 did not impact its consolidated results of operations or financial condition.

In June 2008, the FASB issued FSP EITF No. 03-6-1. FSP EITF 03-6-1 clarifies that unvested share-based payment awards with nonforfeitable rights to dividends or dividend equivalents are considered participating securities and should be included in the calculation of earnings per share pursuant to the two-class method. FSP EITF 03-6-1 was effective for financial statements issued for periods beginning after December 15, 2008 with early adoption prohibited. The adoption of FSP EITF 03-06-1 reduced earnings per diluted share by \$0.03 for the three and six months ended June 30, 2009.

In October 2008, the FASB issued FSP FAS 157-3, “Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active” (“FSP 157-3”), which was effective upon issuance, including prior periods for which financial statements have not been issued. FSP 157-3 clarifies the application of Statement of Financial Accounting Standards No. 157 “Fair Value Measurements” (“SFAS 157”) in a market that is not active and provides an example of key considerations to determine the fair value of financial assets when the market for those assets is not active. The adoption of FSP 157-3 did not have a material effect on the Company’s consolidated results of operations or financial condition. In April, 2009, FSP 157-3 was superseded by FSP FAS 157-4, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions that are Not Orderly” (“FSP 157-4”).

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

In April 2009, the FASB issued FSP 157-4. FSP 157-4 provides guidance on estimating the fair value of a financial asset or liability when the trade volume and level of activity for the asset or liability has significantly decreased relative to historical levels and also provides additional guidance on circumstances that may indicate that a transaction is not orderly. FSP 157-4 requires entities to disclose in interim and annual periods the inputs and valuation techniques used to measure fair value and any changes in valuation inputs or techniques. In addition, debt and equity securities as defined by Statement of Financial Accounting Standards No. 115 “Accounting for Certain Investments in Debt and Equity Securities” (“SFAS 115”) shall be disclosed by major category. This FSP was effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009, and is to be applied prospectively. The adoption of FSP 157-4 did not have a material impact on the Company’s consolidated financial statements.

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In April 2009, the FASB issued FSP FAS 141(R)-1, “Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies” (“FSP 141(R)-1”). FSP 141(R)-1 amends the provisions in SFAS 141(R) for the initial recognition and measurement, subsequent measurement and accounting, and disclosure for assets and liabilities arising from contingencies in business combinations. FSP 141(R)-1 eliminates the distinction between contractual and non-contractual contingencies, including the initial recognition and measurement criteria in SFAS 141(R) and instead carries forward most of the provisions in SFAS 141 for acquired contingencies. The provisions of FSP 141(R)-1 apply to business combinations beginning on or after the first annual reporting period after December 15, 2008. The Company will apply the standard to business combinations completed after January 1, 2009.

In May 2009, the FASB issued SFAS 165. SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 defines the period after the balance sheet date during which management should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in the financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. SFAS 165 was effective for interim or annual reporting periods ending after June 15, 2009, and should be applied prospectively. The adoption of SFAS 165 did not impact the consolidated financial statements of the Company.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 166, “Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140” (“SFAS 166”). SFAS 166 improves the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor’s continuing involvement, if any, in transferred financial assets. Additionally, SFAS 166 eliminates the qualifying special-purpose entity (QSPE) concept from FASB Statement No. 140, “Accounting For Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (“SFAS 140”). SFAS 166 is effective for interim and annual reporting periods beginning after November 15, 2009. The recognition and measurement provisions are effective for prospective transfers with the exception of existing QSPEs which must be evaluated at the time of adoption. The disclosures required by SFAS 166 are applied to both retrospective and prospective transfers. The Company is evaluating the impact of SFAS 166 on its consolidated financial statements.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 167 “Amendments to FASB Interpretation No. 46(R), Consolidation of Variable Interest Entities” (“SFAS 167”). SFAS 167 addresses the effects of eliminating the QSPE concept in SFAS 166 and constituent concerns about the application of certain key provisions of Interpretation No. 46(R), including concerns over the transparency of enterprises’ involvement with variable interest entities. SFAS 167 is effective for interim and annual reporting periods beginning after November 15, 2009 and is applicable to all entities with which the enterprise has involvement, regardless of when that involvement arose. The Company is evaluating the impact of SFAS 167 on its consolidated financial statements.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 168 “The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162” (“SFAS 168”). SFAS 168 makes the FASB Accounting Standards Codification (the “Codification”) the single source of authoritative non-governmental generally accepted accounting principles, superseding existing FASB, American Institute of Certified Public Accountants, Emerging Issues Task Force and related accounting literature. Also included is relevant Securities and Exchange Commission guidance organized using the same topical structure in separate sections. SFAS 168 is effective for interim and annual reporting periods ending after September 15, 2009. SFAS 168 will impact the Company’s financial statement disclosures since all future references to authoritative accounting literature will be referenced in accordance with the Codification.

Note 4 *Sale of PCS*

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 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 were included within discontinued operations in accordance with Statement of Financial Accounting Standards No. 144 “Accounting for the Impairment or Disposal of Long-Lived Assets”. See Note 14 for additional information regarding the Company’s restructuring activities.

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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:

<i>(Dollars in thousands)</i>	June 30, 2009	December 31, 2008
Financial instruments and other inventory positions owned (1):		
Corporate securities:		
Equity securities	\$ 2,918	\$ 4,148
Convertible securities	338	7,088
Fixed income securities	112,459	72,571
Municipal securities	278,579	173,169
Asset-backed securities	74,400	52,385
U.S. government agency securities	22,999	59,341
U.S. government securities	21,733	67,631
Derivative contracts	25,915	56,502
	\$ 539,341	\$ 492,835

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

Corporate securities:		
Equity securities	\$ 1,114	\$ 6,335
Convertible securities	284	-
Fixed income securities	17,052	9,283
Municipal securities	-	23,250
Asset-backed securities	22,814	-
U.S. government agency securities	4	10,298
U.S. government securities	136,452	58,377
Derivative contracts	2,624	35,670
	\$ 180,344	\$ 143,213

(1) Excludes \$28.8 million and \$84.6 million in securitized municipal tender option bonds held in securitized trusts at June 30, 2009, and December 31, 2008, respectively. These financial instruments are included in securitized municipal tender option bonds on the consolidated statements of financial condition.

At June 30, 2009, and December 31, 2008, financial instruments and other inventory positions owned in the amount of \$129.6 million and \$112.0 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 derivatives, 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 securitized municipal tender option bonds. The following describes the Company's derivatives by the type of transaction or security the instruments are economically hedging.

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Customer matched-book derivatives: The Company enters into interest rate derivative contracts in a principal capacity as a dealer to satisfy the financial needs of its customers. The Company simultaneously enters into an interest rate derivative contract with a third party for the same notional amount to hedge the interest rate risk of the initial client interest rate derivative contract. The instruments use interest rates based upon either the London Inter-bank Offer Rate (“LIBOR”) index or the Securities Industry and Financial Markets Association (“SIFMA”) index.

Trading securities derivatives: The Company enters into interest rate derivative contracts to hedge interest rate and market value risks associated with its fixed income securities. The instruments use interest rates based upon either the Municipal Market Data (“MMD”) index or the SIFMA index.

Securitization transaction derivatives: The Company enters into interest rate derivative contracts to manage the interest rate exposure associated with the Company’s securitized municipal tender option bonds. The instruments used are based upon the SIFMA index.

The following table presents the total absolute notional contract amount associated with the Company’s outstanding derivative instruments:

(Dollars in thousands)

Derivative Instrument	Derivative Category	June 30, 2009	December 31, 2008
Customer matched-book	Interest rate derivative contract	\$ 6,892,755	\$ 6,834,402
Trading securities	Interest rate derivative contract	211,500	114,500
Securitization transactions	Interest rate derivative contract	28,740	144,400
		\$ 7,132,995	\$ 7,093,302

The Company’s interest rate derivative contracts do not qualify for hedge accounting under SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities;” therefore, unrealized gains and losses are recorded on the consolidated statements of operations. The following table presents the Company’s gains/(losses) on derivative instruments:

(Dollars in thousands)

Derivative Category	Revenue Category	Three Months Ended		Six Months Ended	
		June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Interest rate derivative contract	Institutional brokerage	\$ 1,866	\$ 8,204	\$ 11,582	\$ 8,535

The gross fair market value of all derivative instruments and their location on the Company’s consolidated statements of financial condition are shown below by asset or liability position (1):

(Dollars in thousands)

Derivative Category	Financial Condition Location	Asset Value at June 30, 2009	Financial Condition Location	Liability Value at June 30, 2009
Interest rate derivative contract	Financial instruments and other inventory positions owned	\$ 365,446	Financial instruments and other inventory positions sold, but not yet purchased	\$ 330,999

(1) Amounts are disclosed at gross fair value in accordance with SFAS 161 requirements and therefore do not reflect the net presentation allowed by FSP No. FIN 39-1 “Amendment of FASB Interpretation No. 39”.

The Company’s derivative contracts are recorded at fair value. 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.

Credit risk associated with the Company’s derivatives is the risk that a derivative counterparty will not perform in accordance with the terms of the applicable derivative contract. Credit exposure associated with the Company’s derivatives is driven by uncollateralized market movements in the fair value of the contracts with counterparties and is monitored regularly by its market and credit risk committee. The majority of the Company’s derivative contracts are substantially collateralized by its counterparties, which are major financial institutions. The Company has a limited number of counterparties (notional contract amount of \$271.7 million at June 30, 2009) who are not required to post collateral. Based on market movements, the uncollateralized amounts representing the fair value of the derivative contract can become material, exposing the Company to the credit risk of these counterparties. As of June 30, 2009, the Company had \$22.6 million of credit exposure with these counterparties, including \$10.5 million of credit exposure with one counterparty.

Note 6 Fair Value of Financial Instruments

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

The degree of judgment used in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Pricing observability is impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established and other characteristics specific to the instrument. Financial instruments with readily available active quoted prices for which fair value can be measured 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 is a description of the valuation techniques used to measure fair value.

Cash Equivalents

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

Cash Instruments (Trading Securities)

When available, the fair value of cash instruments is based on quoted prices in active markets and reported in Level I. Level I cash instruments include highly liquid instruments with quoted prices such as certain U.S. treasury bonds, and equities listed in active markets.

If quoted prices are not available, fair values are obtained from pricing services, broker quotes, or other model-based valuation techniques with observable inputs such as the present value of estimated cash flows and reported as Level II. The nature of these cash instruments include instruments for which quoted prices are available but traded less frequently, instruments whose fair value have been derived using a model where inputs to the model are directly observable in the market, or can be derived principally from or corroborated by observable market data, and instruments that are fair valued using other financial instruments, the parameters of which can be directly observed. Level II cash instruments generally include certain U.S. treasury bonds and U.S. government agency securities, certain corporate bonds, certain municipal bonds, certain asset-backed securities, convertible securities and securitized municipal tender option bonds.

Level III cash instruments have little to no pricing observability as of the report date. These cash instruments do not have active 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. The Company has identified Level III cash instruments to include certain asset-backed securities, principally collateralized by aircraft, that have experienced low volumes of executed transactions; auction-rate securities for which the market has been dislocated and largely ceased to function; and certain corporate bonds where there was less frequent or nominal market activity. The Company's Level III asset-backed securities are valued using cash flow models that utilize unobservable inputs including airplane lease rates, utilization rates, trust costs, aircraft residual values and assumptions on timing of sales. Auction-rate securities are valued based upon the Company's expectations of issuer refunding plans and using internal models. Level III corporate bonds are valued using prices from comparable securities.

Derivatives

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 market observable inputs including contractual terms, market prices, yield curves, credit curves and measures of volatility. These measurements are classified as Level II within the fair value hierarchy and are used to value interest rate swaps, interest rate locks, and forward contracts.

Investments

Investments in public companies are valued based on quoted prices on active markets and reported in Level I. Investments in certain illiquid municipal bonds that the Company is holding for investment are reported as Level III assets.

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The following table summarizes the valuation of our financial instruments by SFAS 157 pricing observability levels as of June 30, 2009:

<i>(Dollars in thousands)</i>	Level I	Level II	Level III	Counterparty Collateral Netting (1)	Total
Assets:					
Financial instruments and other inventory positions owned:					
Corporate securities:					
Equity securities	\$ 2,918	\$ -	\$ -	\$ -	\$ 2,918
Convertible securities	-	338	-	-	338
Fixed income securities	-	105,886	6,573	-	112,459
Municipal securities	-	261,416	17,163	-	278,579
Asset-backed securities	-	30,176	44,224	-	74,400
U.S. government agency securities	-	22,999	-	-	22,999
U.S. government securities	6,524	15,209	-	-	21,733
Derivative instruments	-	57,792	-	(31,877)	25,915
Total financial instruments and other inventory positions owned	9,442	493,816	67,960	(31,877)	539,341
Securitized municipal tender option bonds	-	28,843	-	-	28,843
Cash equivalents	9,274	-	-	-	9,274
Investments	1,733	-	85	-	1,818
Total assets	<u>\$ 20,449</u>	<u>\$ 522,659</u>	<u>\$ 68,045</u>	<u>\$ (31,877)</u>	<u>\$ 579,276</u>
Liabilities:					
Financial instruments and other inventory positions sold, but not yet purchased:					
Corporate securities:					
Equity securities	\$ 1,114	\$ -	\$ -	\$ -	\$ 1,114
Convertible securities	-	284	-	-	284
Fixed income securities	-	17,052	-	-	17,052
Asset-backed securities	-	21,249	1,565	-	22,814
U.S. government agency securities	-	4	-	-	4
U.S. government securities	50,863	85,589	-	-	136,452
Derivative instruments	-	23,345	-	(20,721)	2,624
Total financial instruments and other inventory positions sold, but not yet purchased	51,977	147,523	1,565	(20,721)	180,344
Investments	-	-	19	-	19
Total liabilities	<u>\$ 51,977</u>	<u>\$ 147,523</u>	<u>\$ 1,584</u>	<u>\$ (20,721)</u>	<u>\$ 180,363</u>

(1) Represents cash collateral and the impact of netting on a counterparty basis. Additionally, the Company had no securities posted as collateral to its counterparties.

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The following table summarizes the valuation of our financial instruments by SFAS 157 pricing observability levels as of December 31, 2008:

<i>(Dollars in thousands)</i>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Counterparty Collateral Netting (1)</u>	<u>Total</u>
Assets:					
Financial instruments and other inventory positions owned:					
Corporate securities:					
Equity securities	\$ 4,148	\$ -	\$ -	\$ -	\$ 4,148
Convertible securities	-	3,417	3,671	-	7,088
Fixed income securities	-	70,433	2,138	-	72,571
Municipal securities	-	155,419	17,750	-	173,169
Asset-backed securities	-	29,825	22,560	-	52,385
U.S. government agency securities	-	59,335	6	-	59,341
U.S. government securities	61,224	6,407	-	-	67,631
Derivative instruments	-	84,502	-	(28,000)	56,502
Total financial instruments and other inventory positions owned	65,372	409,338	46,125	(28,000)	492,835
Securitized municipal tender option bonds	-	84,586	-	-	84,586
Cash equivalents	31,595	-	-	-	31,595
Investments	1,741	-	433	-	2,174
Total assets	<u>\$ 98,708</u>	<u>\$ 493,924</u>	<u>\$ 46,558</u>	<u>\$ (28,000)</u>	<u>\$ 611,190</u>
Liabilities:					
Financial instruments and other inventory positions sold, but not yet purchased:					
Corporate securities:					
Equity securities	\$ 6,335	\$ -	\$ -	\$ -	\$ 6,335
Fixed income securities	-	9,283	-	-	9,283
Municipal securities	-	23,250	-	-	23,250
U.S. government agency securities	-	10,298	-	-	10,298
U.S. government securities	14,424	43,953	-	-	58,377
Derivative instruments	-	63,670	-	(28,000)	35,670
Total financial instruments and other inventory positions sold, but not yet purchased	20,759	150,454	-	(28,000)	143,213
Investments	-	-	366	-	366
Total liabilities	<u>\$ 20,759</u>	<u>\$ 150,454</u>	<u>\$ 366</u>	<u>\$ (28,000)</u>	<u>\$ 143,579</u>

(1) Represents cash collateral and the impact of netting on a counterparty basis. Additionally, the Company had \$56.8 million of securities posted as collateral to its counterparties.

The Company's Level III assets were \$68.0 million and \$46.6 million, or 11.7 percent and 7.6 percent of financial instruments measured at fair value at June 30, 2009, and December 31, 2008, respectively.

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The following tables summarize the changes in fair value carrying values associated with Level III financial instruments during the six months ended June 30, 2009 and 2008, respectively:

<i>(Dollars in thousands)</i>	Balance at December 31, 2008	Purchases/ (sales), net	Net transfers in/(out)	Realized gains/ (losses) (2)	Unrealized gains/ (losses) (2)	Balance at June 30, 2009
Assets:						
Financial instruments and other inventory positions owned:						
Corporate securities:						
Convertible securities	\$ 3,671	\$ -	\$ (3,671)	\$ -	\$ -	\$ -
Fixed income securities	2,138	3,516	637	7	275	6,573
Municipal securities	17,750	175	(100)	-	(662)	17,163
Asset-backed securities	22,560	9,226	10,613	416	1,409	44,224
U.S. government agency securities	6	(1)	(5)	-	-	-
Total financial instruments and other inventory positions owned	46,125	12,916	7,474	423	1,022	67,960
Investments	433	-	-	-	(348)	85
Total assets	\$ 46,558	\$ 12,916	\$ 7,474	\$ 423	\$ 674	\$ 68,045

Liabilities:						
Financial instruments and other inventory positions sold, but not yet purchased:						
Corporate securities:						
Asset-backed securities	\$ -	\$ 415	\$ 1,297	\$ (49)	\$ (98)	\$ 1,565
Total financial instruments and other inventory positions sold, but not yet purchased	-	415	1,297	(49)	(98)	1,565
Investments	366	-	-	-	(347)	19
Total liabilities	\$ 366	\$ 415	\$ 1,297	\$ (49)	\$ (445)	\$ 1,584

<i>(Dollars in thousands)</i>	Balance at December 31, 2007	Purchases/ (sales), net	Net transfers in/(out)	Realized gains/ (losses) (2)	Unrealized gains/ (losses) (2)	Balance at June 30, 2008
Assets:						
Financial instruments and other inventory positions owned:						
Corporate securities:						
Convertible securities	\$ -	\$ 843	\$ 1,696	\$ (168)	\$ 66	\$ 2,437
Fixed income securities	-	(230)	10,529	5	(793)	9,511
Municipal securities	202,500	(117,475)	-	-	-	85,025
Asset-backed securities	14,282	4,415	16,953	24	(2,360)	33,314
Other	13,921	35	-	(1,800)	(700)	11,456
Total financial instruments and other inventory positions owned	230,703	(112,412)	29,178	(1,939)	(3,787)	141,743
Investments	6,015	(1,073)	-	323	(1,343)	3,922
Total assets	\$ 236,718	\$ (113,485)	\$ 29,178	\$ (1,616)	\$ (5,130)	\$ 145,665

Liabilities:						
Financial instruments and other inventory positions sold, but not yet purchased:						
Corporate securities:						
Fixed income securities	\$ -	\$ -	\$ 1,960	\$ (80)	\$ -	\$ 1,880
Total financial instruments and other inventory positions sold, but not yet purchased	-	-	1,960	(80)	-	1,880
Investments	1,260	(267)	-	267	33	1,293
Total liabilities	\$ 1,260	\$ (267)	\$ 1,960	\$ 187	\$ 33	\$ 3,173

(2) 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

Historically, the Company conducted a tender option bond securitization program, which the Company decided to discontinue in October of 2008. Under this program, the Company sold highly rated municipal bonds into securitization vehicles ("Securitized Trust") that were funded by the sale of variable rate certificates to institutional customers seeking variable rate tax-free investment products. These variable rate certificates repriced weekly and the Company receives a fee to remarket the variable rate certificates. The Company had one Securitized Trust outstanding as of June 30, 2009, and seven outstanding as of December 31, 2008. Securitization transactions meeting certain Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities" ("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 criteria of SFAS 140, the transaction is recorded as a borrowing.

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At June 30, 2009, the Company maintained one Securitized Trust that did not meet the asset sale criteria of SFAS 140, causing the Company to account for this transaction as a borrowing. The Company consolidated the assets and liabilities of the trust onto the Company's consolidated statement of financial condition. Accordingly, the Company recorded an asset for the underlying bonds of \$28.8 million (par value \$28.7 million) as of June 30, 2009, in securitized municipal tender option bonds and a liability for the certificates sold by the trust for \$28.7 million as of June 30, 2009, in tender option bond trust certificates on the consolidated statement of financial condition. At December 31, 2008, the Company had seven 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 \$84.6 million (par value \$113.6 million) as of December 31, 2008, in securitized municipal tender option bonds and a liability for the certificates sold by the trusts for \$88.0 million as of December 31, 2008, in tender option bond trust certificates on the consolidated statement of financial condition.

The Company has contracted with a major third-party financial institution to act as the liquidity provider for the Company's tender option bond Securitized Trust through December 30, 2009. The Company has agreed to reimburse this party for any losses associated with providing liquidity to the trust. The maximum exposure to loss at June 30, 2009, was \$28.7 million representing the outstanding amount of all trust certificates. This exposure to loss is mitigated, however, by the underlying bonds in the trust and derivative hedges the Company has in place. The underlying bonds had a market value of approximately \$28.8 million at June 30, 2009.

The Company has entered into interest rate swap agreements to manage interest rate exposure associated with its Securitized Trust, which have been recorded at fair value. See further discussion of interest rate swap agreements in Note 5 to our unaudited consolidated financial statements.

Note 8 *Variable Interest Entities*

In the normal course of business, the Company periodically creates or transacts with entities that may be variable interest entities ("VIEs"). The determination as to whether an entity is a VIE is based on the amount and nature of the Company's equity investment in the entity. The Company also considers other characteristics such as the ability to influence the decision making about the entity's activities and how the entity is financed. The Company's involvement with VIEs is limited to entities used as either securitization vehicles or investment vehicles. See Note 7 for a discussion of the Company's securitization vehicles.

The Company has investments in and/or acts as the managing partner or member to approximately 20 partnerships and limited liability companies ("LLCs"). These entities were established for the purpose of investing in equity and debt securities of public and private investments and were initially financed through the capital commitments of the members. At June 30, 2009, the Company's aggregate net investment in these partnerships and LLCs totaled \$8.0 million. The Company's remaining capital commitment to these partnerships and LLCs was \$3.4 million at June 30, 2009.

The Company has identified one partnership and three LLCs described above as VIEs. The Company is required to consolidate all VIEs for which it is considered to be the primary beneficiary. The determination as to whether the Company is considered to be the primary beneficiary is based on whether the Company will absorb a majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both. It was determined that the Company is not the primary beneficiary of these VIEs, however, the Company owns a significant variable interest in these VIEs. These VIEs had assets approximating \$156.2 million at June 30, 2009. The Company's exposure to loss from these entities is \$4.4 million, which is the value of its capital contributions recorded in other assets on the consolidated statement of financial condition at June 30, 2009. The Company had no liabilities related to these entities at June 30, 2009.

The Company has not provided financial or other support to the VIEs that it was not previously contractually required to provide as of June 30, 2009.

[Table of Contents](#)**Note 9** *Receivables from and Payables to Brokers, Dealers and Clearing Organizations*

Amounts receivable from brokers, dealers and clearing organizations at June 30, 2009, and December 31, 2008, included:

<i>(Dollars in thousands)</i>	June 30, 2009	December 31, 2008
Receivable arising from unsettled securities transactions, net	\$ 2,454	\$ 79,370
Deposits paid for securities borrowed	48,942	18,475
Receivable from clearing organizations	18,914	17,661
Securities failed to deliver	9,538	2,282
Other	11,157	4,332
	\$ 91,005	\$ 122,120

Amounts payable to brokers, dealers and clearing organizations at June 30, 2009, and December 31, 2008, included:

<i>(Dollars in thousands)</i>	June 30, 2009	December 31, 2008
Payable to clearing organizations	\$ 7,642	\$ 8,482
Securities failed to receive	5,106	1,565
Other	2	2
	\$ 12,750	\$ 10,049

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 10 *Other Assets*

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

Other assets at June 30, 2009, and December 31, 2008, included:

<i>(Dollars in thousands)</i>	June 30, 2009	December 31, 2008
Investments at fair value	\$ 1,818	\$ 2,174
Investments at cost	39,375	33,988
Investments valued using equity method	16,825	19,817
Deferred income tax assets	78,813	87,420
Income tax receivables	445	35,268
Prepaid expenses	6,340	5,779
Other	1,356	1,292
Total other assets	\$ 144,972	\$ 185,738

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Note 11 Goodwill and Intangible Assets

The following table presents the changes in the carrying value of goodwill and intangible assets for the six months ended June 30, 2009:

(Dollars in thousands)

Goodwill

Balance at December 31, 2008	\$ 160,582
Goodwill acquired	-
Impairment losses	-
FAMCO goodwill adjustment	(146)
Balance at June 30, 2009	<u>\$ 160,436</u>

(Dollars in thousands)

Intangible assets

Balance at December 31, 2008	\$ 14,523
Intangible assets acquired	-
Amortization of intangible assets	(1,228)
Impairment losses	-
Balance at June 30, 2009	<u>\$ 13,295</u>

Note 12 Financing

The Company has committed short-term financing available on a secured basis and uncommitted short-term financing available on both a secured and unsecured basis. The availability of the Company's uncommitted lines are subject to approval by individual banks each time an advance is requested and may be denied. In addition, the Company has established arrangements to obtain financing by another broker dealer at the end of each business day related specifically to its convertible inventory. Repurchase agreements are also used as a source of funding.

During 2008, the Company entered into a \$250 million committed revolving credit facility with U.S. Bank, N.A. 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 Piper Jaffray 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 pays a nonrefundable commitment fee on the unused portion of the facility on a quarterly basis. At June 30, 2009, the Company had no advances against this line of credit.

The Company's short-term financing bears interest at rates based on the federal funds rate. For the six months ended June 30, 2009 and 2008, the weighted average interest rate on borrowings was 1.26 percent and 2.96 percent, respectively. At June 30, 2009, and December 31, 2008, no formal compensating balance agreements existed, and the Company was in compliance with all debt covenants related to its financing facilities.

Note 13 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 \$15.1 million and \$17.0 million at June 30, 2009, and December 31, 2008, 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 June 30, 2009, and December 31, 2008, will be funded by an insurance receivable, which is recorded within other receivables on the consolidated statement of financial condition.

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

Given uncertainties regarding the timing, scope, volume and outcome of pending and potential litigation, arbitration and regulatory proceedings and other factors, the amounts of reserves are difficult to determine and of necessity subject to future revision. Subject to the foregoing, management of the Company believes, based on its current knowledge, after consultation with outside legal counsel and after taking into account its established reserves, that pending legal actions, investigations and proceedings will be resolved with no material adverse effect on the consolidated financial condition of the Company. However, if during any period a potential adverse contingency should become probable or resolved for an amount in excess of the established reserves, the results of operations in that period could be materially adversely affected.

Note 14 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 and early 2009, 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)

	Other Restructuring	PCS Restructuring
Balance at December 31, 2008	\$ 8,529	\$ 9,928
Provision charged to continuing operations	3,196	376
Recovery of provision charged to operations	(274)	-
Cash outlays	(5,913)	(1,571)
Non-cash write-downs	(260)	-
Balance at June 30, 2009	\$ 5,278	\$ 8,733

Note 15 Shareholders' Equity

Share Repurchase Program

In the second quarter of 2008, the Company's board of directors authorized the repurchase of up to \$100 million in common shares through June 30, 2010. During the six months ended June 30, 2009, the Company did not repurchase any shares of the Company's common stock under this authorization. The Company has \$85.0 million remaining under this authorization.

Issuance of Shares

During the six months ended June 30, 2009, the Company issued 134,700 common shares out of treasury stock in fulfillment of \$3.8 million in obligations under the Piper Jaffray Companies Retirement Plan and issued 286,552 common shares out of treasury stock as a result of vesting and exercise transactions under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan.

Note 16 Earnings Per Share

Effective January 1, 2009, the Company adopted FSP EITF 03-6-1. Under FSP EITF 03-6-1, unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and should be included in the earnings per share calculation under the two-class method. The Company grants restricted stock as part of its share-based compensation program, which entitle the recipients to receive nonforfeitable dividends or dividend equivalents during the vesting period.

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Basic earnings per common share is computed by dividing net income/(loss) applicable to common shareholders by the weighted average number of common shares outstanding for the period. Net income/(loss) applicable to common shareholders represents net income/(loss) reduced by the allocation of earnings to participating securities. Losses are not allocated to participating securities. Diluted earnings per common share is calculated by adjusting the weighted average outstanding shares to assume conversion of all potentially dilutive stock options. The computation of earnings per share is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
<i>(Amounts in thousands, except per share data)</i>				
Net income/(loss)	\$ 11,576	\$ (74)	\$ 8,851	\$ (1,468)
Earnings allocated to participating stock awards	<u>(2,101)</u>	<u>-</u>	<u>(1,582)</u>	<u>-</u>
Net income/(loss) applicable to common shareholders (2)	<u>\$ 9,475</u>	<u>\$ (74)</u>	<u>\$ 7,269</u>	<u>\$ (1,468)</u>
Shares for basic and diluted calculations:				
Average shares used in basic computation	16,104	16,072	15,987	15,951
Stock options	13	31	8	44
Restricted stock	<u>-</u> (3)	<u>2,467</u>	<u>-</u> (3)	<u>2,289</u>
Average shares used in diluted computation	<u>16,117</u>	<u>18,570</u>	<u>15,995</u>	<u>18,284</u>
Earnings per share:				
Basic	\$ 0.59	\$ -	\$ 0.45	\$ (0.09)
Diluted	\$ 0.59	\$ - (1)	\$ 0.45	\$ (0.09) (1)

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

(2) Net income applicable to common shareholders for diluted and basic EPS may differ under the two-class method as a result of adding the effect of the assumed exercise of stock options to dilutive shares outstanding, which alters the ratio used to allocate earnings to common shareholders and participating securities for purposes of calculating diluted and basic EPS.

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

The anti-dilutive effects from stock options was immaterial for the periods ended June 30, 2009 and 2008.

Note 17 Stock-Based Compensation

The Company maintains one stock-based compensation plan, the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan. The plan permits the grant of equity awards, including restricted stock and non-qualified stock options, to the Company's employees and directors for up to 7.0 million shares of common stock. As of June 30, 2009, 1.8 million shares of common stock from this 7.0 million share authorization were available for equity award grants. 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 80 percent of the awards have three-year cliff vesting periods, approximately 10 percent of the awards vest ratably from 2010 through 2013 on the annual grant date anniversary, and approximately 10 percent of the awards cliff vest upon meeting a specific performance-based metric prior to May 2013. The director awards are fully vested upon grant. The maximum term of the stock options granted to employees and directors is ten years. The plan provides for accelerated vesting of option and restricted stock awards if there is a change in control of the Company (as defined in the plan), in the event of a participant's death, and at the discretion of the compensation committee of the Company's board of directors.

Prior to January 1, 2006, the Company accounted for stock-based compensation under the fair value method of accounting as prescribed by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation", as amended by Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure". As such, the Company recorded stock-based compensation expense in the consolidated statements of operations at fair value, net of estimated forfeitures.

Effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards 123(R), "Share Based Payment" ("SFAS 123(R)"), using the modified prospective transition method. SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the statements of operations at fair value over the

service period of the award, net of estimated forfeitures.

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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. SFAS 123(R) required the Company to change 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.

Restricted stock grants are valued at the market price of the Company's common stock on the date of grant. Restricted stock granted prior to January 1, 2006, was amortized on a straight-line basis over the vesting period. Restricted stock grants after January 1, 2006, are amortized over the service period. The majority of the Company's restricted stock grants provide for continued vesting after termination, so long as the employee does not violate certain post-termination restrictions. These post-termination restrictions do not meet the criteria for an in-substance service condition as defined by SFAS 123(R). Accordingly, such restricted stock grants are expensed in the period in which those awards are deemed to be earned, which is generally the calendar year preceding the February grant date each year.

Performance-based restricted stock awards granted in 2008 were valued at the market price of the Company's common stock on the date of grant. The restricted shares are amortized on a straight-line basis over the period the Company expects the performance target to be met. The performance condition must be met for the awards to vest and total compensation cost will be recognized only if the performance condition is satisfied. The probability that the performance conditions will be achieved and that the awards will vest is reevaluated each reporting period with changes in actual or estimated outcomes accounted for using a cumulative effect adjustment.

The Company recorded compensation expense, net of estimated forfeitures, of \$13.4 million and \$8.0 million for the three months ended June 30, 2009 and 2008, respectively, and \$19.8 million and \$14.5 million for the six months ended June 30, 2009 and 2008, respectively, related to employee restricted stock and stock option grants. The tax benefit related to the total compensation cost for stock-based compensation arrangements totaled \$5.2 million and \$3.1 million for the three months ended June 30, 2009 and 2008, respectively, and \$7.7 million and \$5.6 million for the six months ended June 30, 2009 and 2008, respectively.

Equity awards cancelled as a result of recipients violating the post-termination restrictions prior to award vesting result in the Company recording other income on the consolidated statement of operations at the lower of the fair value of the award at grant date or the fair value of the award at the date of cancellation. The amount the Company recorded to other income from cancellations for the six months ended June 30, 2009 and 2008, was not significant.

The fair value of each stock option is estimated on the date of grant using the Black-Scholes option-pricing model, which is based on assumptions such as the risk-free interest rate, the dividend yield, the expected volatility and the expected life of the option. The risk-free interest rate assumption is derived from the U.S. treasury bill rate with a maturity equal to the expected life of the option. The dividend yield assumption is derived from the assumed dividend payout over the expected life of the option. The expected volatility assumption for 2008 grants was 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 and does not have sufficient historical data to determine an appropriate expected volatility solely from the Company's own historical data. The expected life assumption is based on an average of the following two factors: 1) industry comparisons; and 2) the guidance provided by the SEC in Staff Accounting Bulletin No. 110, ("SAB 110"). SAB 110 allows the use of an "acceptable" methodology under which the Company can take the midpoint of the vesting date and the full contractual term. The following table provides a summary of the valuation assumptions used by the Company to determine the estimated value of stock option grants in Piper Jaffray Companies common stock for the six months ended June 30, 2008:

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

The Company did not grant stock options during the six months ended June 30, 2009.

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The following table summarizes the changes in the Company's outstanding stock options for the six months ended June 30, 2009:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
December 31, 2008	571,067	\$ 44.25	6.7	\$ 322,749
Granted	-	-	-	-
Exercised	-	-	-	-
Canceled	-	-	-	-
June 30, 2009	571,067	\$ 44.25	6.2	\$ 1,572,374
Options exercisable at June 30, 2009	421,424	\$ 43.10	5.3	\$ 1,271,381

As of June 30, 2009, there was no unrecognized compensation cost related to stock options expected to be recognized over future years.

There were no options exercised for the six months ended June 30, 2009. Cash received from option exercises for the six months ended June 30, 2008, was not significant. The tax benefit realized for the tax deduction from option exercises was immaterial for the six months ended June 30, 2008.

The following table summarizes the changes in the Company's non-vested restricted stock for the six months ended June 30, 2009:

	Non-Vested Restricted Stock	Weighted Average Grant Date Fair Value
December 31, 2008	3,177,945	\$ 46.87
Granted	873,787	27.64
Vested	(453,666)	47.73
Canceled	(22,457)	46.16
June 30, 2009	3,575,609	\$ 40.96

As of June 30, 2009, there was \$32.9 million of total unrecognized compensation cost related to restricted stock expected to be recognized over a weighted average period of 2.98 years.

Note 18 Geographic Areas

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
<i>(Dollars in thousands)</i>				
Net revenues:				
United States	\$ 120,939	\$ 85,642	\$ 201,611	\$ 168,440
Europe	5,292	9,172	7,641	14,972
Asia	6,059	2,907	6,920	10,056
Consolidated	\$ 132,290	\$ 97,721	\$ 216,172	\$ 193,468

	June 30, 2009	December 31, 2008
<i>(Dollars in thousands)</i>		
Long-lived assets:		
United States	\$ 257,442	\$ 269,862
Europe	1,240	1,290
Asia	12,080	11,408
Consolidated	\$ 270,762	\$ 282,560

Note 19 Net Capital Requirements and Other Regulatory Matters

Piper Jaffray is registered as a securities broker dealer and an investment advisor with the SEC and is a member of various self regulatory organizations ("SROs") and securities exchanges. The Financial Industry Regulatory Authority ("FINRA") serves as Piper Jaffray's primary SRO. Piper Jaffray is subject to the uniform net capital rule of the SEC and the net capital rule of FINRA. Piper Jaffray has elected to use the alternative method permitted by the SEC rule, which requires that it maintain minimum net capital of the greater of \$1.0 million or 2 percent of aggregate debit balances arising from customer transactions, as such term is defined in the SEC rule. Under its rules, FINRA may prohibit a member firm from expanding its business or paying dividends if resulting net capital would be less than 5 percent of aggregate debit balances. Advances to affiliates, repayment of subordinated debt, dividend payments and other equity withdrawals by Piper Jaffray are subject to certain notification and other provisions of the SEC and FINRA rules. In addition, Piper Jaffray is subject to certain notification requirements related to withdrawals of excess net capital.

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At June 30, 2009, net capital calculated under the SEC rule was \$293.0 million, and exceeded the minimum net capital required under the SEC rule by \$291.8 million.

Piper Jaffray Ltd., which is a registered United Kingdom broker dealer, is subject to the capital requirements of the U.K. Financial Services Authority ("FSA"). As of June 30, 2009, Piper Jaffray Ltd. was in compliance with the capital requirements of the FSA.

Piper Jaffray Asia Holdings Limited operates three entities licensed by the Hong Kong Securities and Futures Commission, which are subject to the liquid capital requirements of the Securities and Futures (Financial Resources) Rules promulgated under the Securities and Futures Ordinance. As of June 30, 2009, 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 unaudited consolidated financial statements and related notes and exhibits included elsewhere in this report. Certain statements in this report may be considered forward-looking. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements. These forward-looking statements include, among other things, statements other than historical information or statements of current condition and may relate to our future plans and objectives and results, and also may include our belief regarding the effect of various legal proceedings, as set forth under "Legal Proceedings" in Part I, Item 3 of our Annual Report on Form 10-K for the year ended December 31, 2008 and in our subsequent reports filed with the SEC. Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ materially from those anticipated, including those factors discussed below under "External Factors Impacting Our Business" as well as the factors identified under "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2008, 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.

During the second quarter of 2009, we were able to capitalize on the favorable fixed income trading environment and improved equity markets. The positive fixed income sales and trading results we experienced in the first quarter of 2009 continued into the second quarter driven by solid client activity and favorable market opportunities. The equity capital market conditions improved during the second quarter of 2009 and we were able to complete several equity financing and advisory transactions across all of our focus sectors.

RESULTS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2009

For the three months ended June 30, 2009, we recorded net income of \$11.6 million from continuing operations, or \$0.59 per diluted share, compared with a net loss from continuing operations of \$1.5 million for the corresponding period in the prior year. Net revenues for the second quarter of 2009 were \$132.3 million, an increase of 35.4 percent from \$97.7 million reported in the year-ago period. Higher revenues were recorded in both our investment banking and institutional brokerage businesses.

For the six months ended June 30, 2009, net income from continuing operations was \$8.9 million, or \$0.45 per diluted share, compared with a loss of \$2.9 million from continuing operations for the prior-year period. Net revenues for the first half of 2009 increased 11.7 percent to \$216.2 million driven by higher fixed income institutional sales and trading revenues.

EXTERNAL FACTORS IMPACTING OUR BUSINESS

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

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

OUTLOOK FOR THE REMAINDER OF 2009

During the second quarter of 2009, conditions in the equity capital markets improved, although revenues remained below our historical quarterly average. Within the U.S. market, there were thirteen initial public offerings completed industry-wide and we participated in five. We completed several equity financing and advisory transactions across all our focus sectors. If markets remain conducive to equity financing, as we experienced in the second quarter, we believe equity financing activity in our focus sectors will continue. Our public finance business performed well in the second quarter and we anticipate this business may improve further if the non-investment grade portion of the tax-exempt markets begins to function. We believe advisory activity will be challenged in the second half of the year, as buyers remain cautious. We anticipate U.S. equity and fixed income trading will continue to perform reasonably well, although we believe the very favorable fixed income sales and trading results we experienced in the first half of 2009 will moderate as trading spreads tighten.

For the six months ended June 30, 2009, non-compensation expenses were \$64.5 million, down 21 percent compared to the first half of 2008. This decline was a result of actions taken in 2008 and continued expense discipline. All expense categories reflected a decline compared with the year-ago period. We anticipate going forward in 2009 that our non-compensation expense run-rate will be in the range of approximately \$32 million to \$33 million per quarter.

Results of Operations

FINANCIAL SUMMARY FOR THE THREE MONTHS ENDED JUNE 30, 2009 AND JUNE 30, 2008

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 June 30,			As a Percentage of Net Revenues For the Three Months Ended June 30,	
	2009	2008	2009 v2008	2009	2008
<i>(Dollars in thousands)</i>					
Revenues:					
Investment banking	\$ 62,150	\$ 32,184	93.1 %	47.0 %	33.0 %
Institutional brokerage	60,852	51,196	18.9	46.0	52.4
Interest	8,973	13,114	(31.6)	6.8	13.4
Asset management	3,240	4,697	(31.0)	2.4	4.8
Other income/(loss)	(950)	2,356	N/M	(0.7)	2.4
Total revenues	134,265	103,547	29.7	101.5	106.0
Interest expense	1,975	5,826	(66.1)	1.5	6.0
Net revenues	132,290	97,721	35.4	100.0	100.0
Non-interest expenses:					
Compensation and benefits	79,377	61,087	29.9	60.0	62.5
Occupancy and equipment	7,680	8,133	(5.6)	5.8	8.3
Communications	5,430	5,869	(7.5)	4.1	6.0
Floor brokerage and clearance	3,232	3,899	(17.1)	2.5	4.0
Marketing and business development	3,419	7,381	(53.7)	2.6	7.6
Outside services	7,415	11,308	(34.4)	5.6	11.6
Restructuring-related expenses	3,572	729	390.0	2.7	0.7
Other operating expenses	3,747	6,604	(43.3)	2.8	6.8
Total non-interest expenses	113,872	105,010	8.4 %	86.1	107.5
Income/(loss) before income tax expense/(benefit)	18,418	(7,289)	N/M	13.9	(7.5)
Income tax expense/(benefit)	6,842	(5,776)	N/M	5.1	(5.9)
Net income/(loss) from continuing operations	11,576	(1,513)	N/M	8.8	(1.6)
Discontinued operations:					
Income from discontinued operations, net of tax	-	1,439	N/M	-	1.5
Net income/(loss)	\$ 11,576	\$ (74)	N/M	8.8 %	(0.1) %
Net income applicable to common shareholders	\$ 9,475	N/A	N/M	7.2 %	N/A

N/M - Not meaningful

N/A - Not applicable as no allocation of income was made due to loss position

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Our consolidated results of operations for the three months ended June 30, 2009 and June 30, 2008 include the effect of the adoption of FSP EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" ("FSP EITF 03-6-1"). For further discussion, see Note 16, "Earnings Per Share," in our unaudited consolidated financial statements.

For the three months ended June 30, 2009, we recorded net income of \$11.6 million. Net revenues for the three months ended June 30, 2009, were \$132.3 million, a 35.4 percent increase from the year-ago period. For the second quarter of 2009, investment banking revenues increased to \$62.2 million, compared with revenue of \$32.2 million in the prior-year period. The increase in investment banking revenues was attributable to higher equity and public finance activity as well as increased advisory services revenues. In the second quarter of 2009, institutional brokerage revenues increased 18.9 percent to \$60.9 million, compared with \$51.2 million in the corresponding period in the prior year, driven by higher fixed income sales and trading revenues, including significant increases in both commissions and trading profits, resulting from a favorable fixed income trading environment. In the second quarter of 2009, net interest income decreased slightly to \$7.0 million, compared with \$7.3 million in the second quarter of 2008. For the three months ended June 30, 2009, asset management fees were \$3.2 million, compared with \$4.7 million in the prior-year period, driven by lower assets under management resulting from declining asset valuations. In the second quarter of 2009, other income was a loss of \$1.0 million, compared with income of \$2.4 million in the prior-year period. The loss in the second quarter of 2009 was a result of losses recorded on our principal investments. In the second quarter of 2008, income associated with the forfeiture of equity awards more than offset losses on our principal investments. Non-interest expenses increased to \$113.9 million for the three months ended June 30, 2009, from \$105.0 million in the corresponding period in the prior year, primarily as a result of higher compensation and benefits expenses resulting from increased revenues.

NON-INTEREST EXPENSES

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

For the three months ended June 30, 2009, compensation and benefits expenses increased 29.9 percent to \$79.4 million from \$61.1 million in the corresponding period in 2008. This increase was due to higher variable compensation costs resulting from higher investment banking and institutional brokerage revenues. Compensation and benefits expenses as a percentage of net revenues were 60.0 percent for the second quarter of 2009, compared with 62.5 percent for the second quarter of 2008.

Occupancy and Equipment - In the second quarter of 2009, occupancy and equipment expenses were \$7.7 million, compared with \$8.1 million for the corresponding period in 2008. The decrease was attributable to prior investments in technology and equipment becoming fully depreciated.

Communications - Communication expenses include costs for telecommunication and data communication, primarily consisting of expenses for obtaining third-party market data information. For the three months ended June 30, 2009, communications expenses were \$5.4 million, compared with \$5.9 million for the prior-year period.

Floor Brokerage and Clearance - For the three months ended June 30, 2009, floor brokerage and clearance expenses were \$3.2 million, compared with \$3.9 million for the three months ended June 30, 2008.

Marketing and Business Development - Marketing and business development expenses include travel and entertainment and promotional and advertising costs. In the second quarter of 2009, marketing and business development expenses decreased 53.7 percent to \$3.4 million, compared with \$7.4 million in the second quarter of 2008. This decrease was due to a significant decline in travel expenses as well as cost savings actions taken in late 2008. Additionally, in the second quarter of 2008, we experienced a high number of travel expense write-offs associated with deals that were not completed because of the challenging market conditions.

Outside Services - Outside services expenses include securities processing expenses, outsourced technology functions, outside legal fees and other professional fees. Outside services expenses decreased 34.4 percent to \$7.4 million in the second quarter of 2009, compared with \$11.3 million for the prior-year period, due to a reduction in legal fees as well as reduced credit facility fees and lower consulting costs. The second quarter of 2008 included expenses for non-reimbursable legal fees associated with deals that were not completed because of the challenging market conditions.

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Restructuring-Related Expense - During the second quarter of 2009, we recorded a pre-tax restructuring charge of \$3.6 million, primarily consisting of employee severance costs and charges related to leased office space.

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 second quarter of 2009, other operating expenses decreased to \$3.7 million, compared with \$6.6 million in the second quarter of 2008. In the second quarter of 2008, we recorded \$2.9 million in litigation-related expenses.

Income Taxes - For the three months ended June 30, 2009, our provision for income taxes was \$6.8 million, equating to an effective tax rate of 37.1 percent. For the three months ended June 30, 2008, income taxes from continuing operations was a benefit of \$5.8 million, equating an effective tax rate of 79.2 percent. The 79.2 percent effective tax rate in the second quarter of 2008 was driven by the large amount of tax-exempt municipal interest income and operating losses.

NET REVENUES FROM OPERATIONS (DETAIL)

	For the Three Months Ended June 30,		2009 v2008
	2009	2008	
<i>(Dollars in thousands)</i>			
Net revenues:			
Investment banking			
Financing			
Equities	\$ 23,294	\$ 8,705	167.6 %
Debt	20,126	15,297	31.6
Advisory services	19,574	11,256	73.9
<i>Total investment banking</i>	<u>62,994</u>	<u>35,258</u>	<u>78.7</u>
Institutional sales and trading			
Equities	30,384	35,345	(14.0)
Fixed income	35,166	20,804	69.0
<i>Total institutional sales and trading</i>	<u>65,550</u>	<u>56,149</u>	<u>16.7</u>
<i>Asset management</i>	<u>3,240</u>	<u>4,697</u>	<u>(31.0)</u>
<i>Other income/(loss)</i>	<u>506</u>	<u>1,617</u>	<u>(68.7)</u>
Total net revenues	<u>\$ 132,290</u>	<u>\$ 97,721</u>	<u>35.4 %</u>

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

Investment banking revenues increased 78.7 percent to \$63.0 million in the second quarter of 2009, compared with \$35.3 million in the corresponding period in 2008. For the three months ended June 30, 2009, equity financing revenues increased to \$23.3 million, compared with \$8.7 million in the prior-year period due to increased activity. Equity capital markets activity was depressed in the second quarter of 2008 due to difficult market conditions, which continued through the first quarter of 2009. We began to see some improvement during the second quarter of 2009, although equity financing revenues remain below our historical quarterly average. In the second quarter of 2009, we completed 38 equity financings raising \$11.2 billion in capital for our clients. We acted as book runner on five of these transactions. In the second quarter of 2008, we completed nine equity financings raising \$1.5 billion in capital for our clients, serving as book runner on two of the nine financings. Debt financing revenues in the second quarter of 2009 increased 31.6 percent to \$20.1 million due to higher public finance underwriting revenues attributable to an increased number of transactions completed. For the second quarter of 2009, we underwrote 137 tax-exempt issues with a par value of \$3.8 billion, compared with 97 tax-exempt issues with a par value of \$2.5 billion for the prior-year period. For the three months ended June 30, 2009, advisory services revenues increased 73.9 percent to \$19.6 million due to increased merger and acquisition activity and higher average revenue per transaction. We completed 11 advisory transactions with an aggregate transaction value of \$1.8 billion during the second quarter of 2009, compared with 9 advisory transactions with an aggregate transaction value of \$0.6 billion in the second quarter of 2008.

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Institutional sales and trading revenues comprise all the revenues generated through trading activities, which consist primarily of facilitating customer trades. To assess the profitability of institutional sales and trading activities, we aggregate institutional brokerage revenues with the net interest income or expense associated with financing, economically hedging and holding long or short inventory positions. Our results may vary from quarter to quarter as a result of changes in trading margins, trading gains and losses, net interest spreads, trading volumes and the timing of transactions based on market opportunities.

For the three months ended June 30, 2009, institutional sales and trading revenues increased 16.7 percent from the prior-year period to \$65.6 million, as strong fixed income sales and trading revenues more than offset the decline in equity sales and trading revenues. Equity institutional sales and trading revenues were \$30.4 million in the second quarter of 2009, compared with \$35.3 million in the prior year period due to a decline in net commissions earned per share. Fixed income institutional sales and trading revenues increased 69.0 percent to \$35.2 million in the second quarter of 2009. The significant increase in revenues was due to significant increases in both commissions and trading profits and incremental revenues as a result of senior hires. Additionally, in the second quarter of 2008, we incurred trading losses in our high yield and structured products business.

For the three months ended June 30, 2009, asset management fees decreased to \$3.2 million, compared with \$4.7 million in the prior-year period, due to a decline in assets under management resulting from a decline in asset valuations. At June 30, 2009, we had \$5.9 billion in assets under management compared with \$8.1 billion at June 30, 2008.

Other income/loss includes gains and losses from our investments in private equity and venture capital funds, other firm investments and income associated with the forfeiture of equity awards. In the second quarter of 2009, we recorded income of \$0.5 million, compared with \$1.6 million of income in the prior year period as we recorded higher income associated with forfeitures of equity awards in the second quarter of 2008.

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 second quarter of 2008, discontinued operations recorded net income of \$1.4 million, which primarily related to a PCS legal settlement.

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FINANCIAL SUMMARY FOR THE SIX MONTHS ENDED JUNE 30, 2009 AND JUNE 30, 2008

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 Six Months Ended June 30,			As a Percentage of Net Revenues For the Six Months Ended June 30,	
	2009	2008	2009 v2008	2009	2008
<i>(Dollars in thousands)</i>					
Revenues:					
Investment banking	\$ 86,500	\$ 87,449	(1.1) %	40.0 %	45.2 %
Institutional brokerage	115,879	81,008	43.0	53.6	41.9
Interest	16,261	28,273	(42.5)	7.5	14.6
Asset management	6,249	8,670	(27.9)	2.9	4.5
Other income/(loss)	(4,549)	772	N/M	(2.1)	0.4
Total revenues	220,340	206,172	6.9	101.9	106.6
Interest expense	4,168	12,704	(67.2)	1.9	6.6
Net revenues	216,172	193,468	11.7	100.0	100.0
Non-interest expenses:					
Compensation and benefits	129,701	120,364	7.8	60.0	62.2
Occupancy and equipment	14,198	16,243	(12.6)	6.6	8.4
Communications	11,529	12,608	(8.6)	5.3	6.5
Floor brokerage and clearance	6,114	6,553	(6.7)	2.8	3.4
Marketing and business development	7,864	13,477	(41.6)	3.6	7.0
Outside services	14,934	19,950	(25.1)	6.9	10.3
Restructuring-related expenses	3,572	3,583	(0.3)	1.7	1.8
Other operating expenses	6,298	9,068	(30.5)	2.9	4.7
Total non-interest expenses	194,210	201,846	(3.8) %	89.8	104.3
Income/(loss) before income tax expense/(benefit)	21,962	(8,378)	N/M	10.2	(4.3)
Income tax expense/(benefit)	13,111	(5,471)	N/M	6.1	(2.8)
Net income/(loss) from continuing operations	8,851	(2,907)	N/M	4.1	(1.5)
Discontinued operations:					
Income from discontinued operations, net of tax	-	1,439	N/M	-	0.7
Net income/(loss)	\$ 8,851	\$ (1,468)	N/M	4.1 %	(0.8) %
Net income applicable to common shareholders	\$ 7,269	N/A	N/M	3.4 %	N/A

N/M - Not meaningful

N/A - Not applicable as no allocation of income was made due to loss position

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Our consolidated results of operations for the six months ended June 30, 2009 and June 30, 2008 include the effect of the adoption of FSP EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" ("FSP EITF 03-6-1"). For further discussion, see Note 16, "Earnings Per Share," in our unaudited consolidated financial statements.

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.

For the six months ended June 30, 2009, net income from continuing operations totaled \$8.9 million, compared with a net loss from continuing operations of \$2.9 million in the corresponding period in 2008. Net revenues from continuing operations were \$216.2 million for the six months ended June 30, 2009, an increase of 11.7 percent from the year-ago period. For the six months ended June 30, 2009, investment banking revenues were \$86.5 million, essentially flat compared with the first half of 2008. Institutional brokerage revenues increased 43.0 percent to \$115.9 million, compared with revenues of \$81.0 million in the prior-year period due to higher fixed income sales and trading revenues. Net interest income for the first six months of 2009 decreased to \$12.1 million, down from \$15.6 million for the first six months of 2008. The decrease was primarily the result of a decline in net interest income earned on net inventory balances as we significantly reduced our balance sheet exposure in late 2008 and early 2009. For the first half of 2009, asset management fees were \$6.2 million, compared with \$8.7 million in the prior-year period, driven by lower assets under management resulting from declining asset valuations. Other income for the six months ended June 30, 2009, was a loss of \$4.5 million, compared with income of \$0.8 million for the corresponding period in 2008. The change in other income is attributable to higher losses recorded on our principal investments in the first six months of 2009. Additionally, in the first six months of 2008 we recorded higher income on forfeitures of equity awards. Non-interest expenses decreased to \$194.2 million for the six months ended June 30, 2009, from \$201.8 million in the corresponding period in the prior year, primarily as a result of cost savings actions completed in both 2008 and the first half of 2009.

NON-INTEREST EXPENSES

For the six months ended June 30, 2009, non-interest expenses decreased 3.8 percent to \$194.2 million, compared with \$201.8 million for the prior year period. The underlying reasons for the decrease for the six months ended June 30, 2009, when compared with the six months ended June 30, 2008, are the same as those described in the comparative quarterly discussion.

Income Taxes – For the six months ended June 30, 2009, our provision for income taxes was \$13.1 million, equating to an effective tax rate of 59.7 percent. For the six months ended June 30, 2008, income taxes from continuing operations was a benefit of \$5.5 million, equating to an effective tax rate of 65.3 percent. The effective tax rate of 59.7 percent for the first half of 2009 included \$3 million of one-time items that increased tax expense. Additionally in the first half of 2009, we did not record a tax benefit related to some foreign subsidiary net operating loss carryforward deductions.

NET REVENUES FROM CONTINUING OPERATIONS (DETAIL)

	For the Six Months Ended June 30,		2009 v2008
	2009	2008	
<i>(Dollars in thousands)</i>			
Net revenues:			
Investment banking			
Financing			
Equities	\$ 27,357	\$ 25,223	8.5 %
Debt	32,514	34,667	(6.2)
Advisory services	28,389	36,581	(22.4)
Total investment banking	88,260	96,471	(8.5)
Institutional sales and trading			
Equities	61,046	66,525	(8.2)
Fixed income	62,971	23,143	172.1
Total institutional sales and trading	124,017	89,668	38.3
<i>Asset management</i>	6,249	8,670	(27.9)
<i>Other income/(loss)</i>	(2,354)	(1,341)	75.5
Total net revenues	\$ 216,172	\$ 193,468	11.7 %

For the six months ended June 30, 2009, investment banking revenues decreased to \$88.3 million, compared with \$96.5 million in the prior-year period. Equity financing revenues increased to \$27.4 million in the first half of 2009, compared with \$25.2 million in the corresponding period in the prior year. During the six months ended June 30, 2009, we completed 42 equity financings, raising \$11.3 billion in capital for our clients. During the six months ended June 30, 2008, we completed 24 equity financings, raising \$3.7 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. In the first half of 2009, debt financing revenues declined to \$32.5 million, compared with \$34.7 million in the corresponding period in 2008 as increased public finance revenues were more than offset by a decline in corporate debt and derivative financing revenues. Advisory services revenues for the first six months of 2009 declined 22.4 percent to \$28.4 million due to a decline in activity. For the six months ended June 30, 2009, we completed 17 advisory transactions, compared with 26 advisory transactions in the first half of 2008.

For the six months ended June 30, 2009, institutional sales and trading revenues increased 38.3 percent to \$124.0 million, compared with the prior-year period. Equity institutional sales and trading revenue decreased 8.2 percent to \$61.0 million in the first half of 2009, compared with \$66.5 million in the first half of 2008. Performance in the U.S. high touch equities business was solid in the first half of 2009, but revenues were lower due to a decline in net commissions earned. Fixed income institutional sales and trading revenues increased significantly to \$63.0 million for the six months ended June 30, 2009, compared with \$23.1 million for the corresponding period in 2008, driven by a favorable fixed income trading environment resulting in strong performance across municipal and taxable products. Additionally, in the first half of 2008, we recorded a net loss in high yield and structured products driven by lower commissions and trading losses. Market conditions for high yield corporate bonds and structured products were difficult in the first half of 2008, and we have since liquidated certain of our inventories in high yield and structured products to reduce our exposure in this business.

For the six months ended June 30, 2009, other income/loss recorded a loss of \$2.4 million, compared with a net loss of \$1.3 million in the corresponding period in 2008. The increased loss in the first half of 2009 was a result of higher income associated with the forfeiture of equity awards in the year-ago period.

DISCONTINUED OPERATIONS

For the six months ended June 30, 2008, discontinued operations recorded net income of \$1.4 million. The underlying reasons for income recorded to discontinued operations for the six months ended June 30, 2008, are the same as those described in the discussion for the three months ended June 30, 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, 2008. 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, financial instruments and other inventory positions sold, but not yet purchased, and securitized municipal tender option bonds on our consolidated statements of financial condition consist of financial instruments recorded at fair value. Unrealized gains and losses related to these financial instruments are reflected on our consolidated statements of operations.

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. When available, we use observable market prices, observable market parameters, or broker or dealer prices (bid and ask prices) to derive the fair value of the instrument. In the case of financial instruments transacted on recognized exchanges, the observable market prices represent quotations for completed transactions from the exchange on which the financial instrument is principally traded. Bid prices represent the highest price a buyer is willing to pay for a financial instrument at a particular time. Ask prices represent the lowest price a seller is willing to accept for a financial instrument at a particular time.

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

For investments in illiquid 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. Even where the value of a security is derived from an independent source, certain assumptions may be required to determine the security’s fair value. For example, we assume that the size of positions that we hold would not be large enough to affect the quoted price of the securities if we sell them, and that any such sale would happen in an orderly manner. The actual value realized upon disposition could be different from the current estimated fair value.

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Derivatives are valued using quoted market prices when available or pricing models based on the net present value of estimated future cash flows. Management deemed the net present value of estimated future cash flows model to be the best estimate of fair value as most of our derivative products are interest rate products. The valuation models used require inputs including contractual terms, market prices, yield curves, credit curves and measures of volatility. The valuation models are monitored over the life of the derivative product. If there are any changes in the underlying inputs, the model is updated for those new inputs.

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

SFAS 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The objective of a fair value measurement is to determine the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level I measurements) and the lowest priority to unobservable inputs (Level III measurements). Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Instruments that trade infrequently and therefore have little or no price transparency are classified within Level III based on the results of our price verification process. The Company's Level III assets were \$68.0 million and \$46.6 million as of June 30, 2009 and December 31, 2008, respectively, and represented approximately 11.7 percent and 7.6 percent of financial instruments measured at fair value. At June 30, 2009, this balance primarily consisted of auction-rate securities for which the market has been dislocated and largely ceased to function; asset-backed securities, principally collateralized by aircraft, that have experienced low volumes of executed transactions, such that unobservable inputs had to be utilized for the fair value measurements; and corporate bonds where there was less frequent or nominal market activity. Our auction-rate securities are valued based upon our expectations of issuer refunding plans and using internal models. Asset-backed securities are valued using cash flow models that utilize unobservable inputs that include airplane lease rates, utilization rates, trust costs, aircraft residual values and assumptions on timing of costs. Corporate bonds are valued using prices from comparable securities. We could experience reductions in the value of these inventory positions, which would have a negative impact on our business and results of operations.

During the first half of 2009, we recorded net purchases of \$12.9 million of Level III assets, primarily consisting of asset-backed securities and corporate bonds. We had net transfers of \$3.8 million of assets from Level III to Level II in the first six months of 2009 and \$11.3 million of net transfers of assets from Level II to Level III. Transfers of assets from Level III to Level II were primarily related to convertible securities transaction activity as liquidity increased and external prices became more observable. Transfers of assets from Level II to Level III primarily consisted of asset-backed securities, principally collateralized by aircraft, that experienced low volume of executed transactions, such that unobservable inputs had to be utilized for the fair value measurement. Our valuation adjustments (realized and unrealized) increased Level III assets by \$1.1 million.

During the six months ended June 30, 2009, we recorded net purchases of \$0.4 million of Level III asset-backed liabilities. We had \$1.3 million of liabilities transfer from Level II to Level III, related to asset-backed securities. Our valuation adjustments (realized and unrealized) decreased Level III liabilities by \$0.5 million.

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. At June 30, 2009, we had goodwill of \$160.4 million. Of this goodwill balance, \$105.5 million is a result of the 1998 acquisition by U.S. Bancorp of our predecessor, Piper Jaffray Companies Inc., and its subsidiaries.

Under Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," we are required to perform impairment tests of our goodwill and indefinite-lived intangible assets annually and on an interim basis when certain events or circumstances exist. We have elected to test for goodwill impairment in the fourth quarter of each calendar year. The goodwill impairment test is a two-step process, which requires management to make judgments in determining what assumptions to use in the calculation. The first step of the process consists of estimating the fair value of our two principal reporting units based on the following factors: our market capitalization, a discounted cash flow model using revenue and profit forecasts, public market comparables and multiples of recent mergers and acquisitions of similar businesses. Valuation multiples may be based on revenues, price-to-earnings and tangible capital ratios of comparable public companies and business segments. These multiples may be adjusted to consider competitive differences including size, operating leverage and other factors. The estimated fair values of our reporting units are compared with their carrying values, which includes the allocated goodwill. If the estimated fair value is less than the carrying values, a second step is performed to compute the amount of the impairment by determining an "implied fair value" of goodwill. The determination of a reporting unit's "implied fair value" of goodwill requires us to allocate the estimated fair value of the reporting unit to the assets and liabilities of the reporting unit. Any unallocated fair value represents the "implied fair value" of goodwill, which is compared to its corresponding carrying value.

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

We completed our annual goodwill impairment testing as of November 30, 2008, which resulted in a non-cash goodwill impairment charge of \$130.5 million. This charge related to our capital markets reporting unit and primarily pertained to goodwill created from the 1998 acquisition of our predecessor, Piper Jaffray Companies Inc., and its subsidiaries by U.S. Bancorp, which was retained by us when we spun-off from U.S. Bancorp on December 31, 2003. The factors used by us in estimating our capital markets reporting unit fair value included the following factors: our market capitalization, a discounted cash flow model, public market comparables and multiples of recent mergers and acquisitions. Our market capitalization was measured based on the average closing price for Piper Jaffray Companies common stock over the month of November 2008 and was adjusted to include an estimate for a control premium. Our discounted cash flow model was based on our five-year plan and included an estimated terminal value based upon historical transaction valuations. Public market industry peers were valued based on revenues and tangible common equity. Recent mergers and acquisitions were not a significant factor in the 2008 goodwill evaluation. The impairment charge resulted from deteriorating economic and market conditions in 2008, which led to reduced valuations in the factors discussed above.

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

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

STOCK-BASED COMPENSATION

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

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

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Compensation paid to employees in the form of restricted stock or stock options is generally accrued or amortized on a straight-line basis over the required service period of the award and is included in our results of operations as compensation expense. The majority of these awards have a three-year cliff vesting schedule. The majority of our restricted stock and option grants provide for continued vesting after termination, so long as the employee does not violate certain post-termination restrictions as set forth in the award agreements or any agreements entered into upon termination. These post-termination restrictions do not meet the criteria for an in-substance service condition as defined by SFAS 123(R). Accordingly, such restricted stock and option grants are expensed in the period in which those awards are deemed to be earned, which is generally the calendar year preceding our annual February equity grant. If any of these awards are cancelled, the lower of the fair value at grant date or the fair value at the date of cancellation is recorded within other income in the consolidated statements of operations.

In 2008, we granted performance-based restricted stock awards. These restricted shares are amortized on a straight-line basis over the period we expect the performance target to be met. The performance condition must be met for the awards to vest and total compensation cost will be recognized only if the performance condition is satisfied. The probability that the performance conditions will be achieved and that the awards will vest is reevaluated each reporting period with changes in actual or estimated compensation expense accounted for using a cumulative effect adjustment.

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

In determining the estimated fair value of stock options, we use the Black-Scholes option-pricing model. This model requires management to exercise judgment with respect to certain assumptions, including the expected dividend yield, the expected volatility, and the expected life of the options. The expected dividend yield assumption is derived from the assumed dividend payout over the expected life of the option. The expected volatility assumption for grants subsequent to December 31, 2006 is derived from a combination of our historical data and industry comparisons, as we have limited information on which to base our volatility estimates because we have only been a public company since the beginning of 2004. The expected volatility assumption for grants prior to December 31, 2006 were based solely on industry comparisons. The expected life of options assumption is derived from the average of the following two factors: industry comparisons and the guidance provided by the SEC in Staff Accounting Bulletin No. 110 ("SAB 110"). SAB 110 allows the use of an "acceptable" methodology under which we can take the midpoint of the vesting date and the full contractual term. We believe our approach for calculating an expected life to be an appropriate method in light of the limited historical data regarding employee exercise behavior or employee post-termination behavior. Additional information regarding assumptions used in the Black-Scholes pricing model can be found in Note 17 to our unaudited consolidated financial statements.

CONTINGENCIES

We are involved in various pending and potential legal proceedings related to our business, including litigation, arbitration and regulatory proceedings. Some of these matters involve claims for substantial amounts, including claims for punitive and other special damages. We have, after consultation with outside legal counsel and consideration of facts currently known by management, recorded estimated losses in accordance with Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies," to the extent that claims are probable of loss and the amount of the loss can be reasonably estimated. The determination of these reserve amounts requires significant judgment on the part of management. In making these determinations, we consider many factors, including, but not limited to, the loss and damages sought by the plaintiff or claimant, the basis and validity of the claim, the likelihood of a successful defense against the claim, and the potential for, and magnitude of, damages or settlements from such pending and potential litigation and arbitration proceedings, and fines and penalties or orders from regulatory agencies.

As part of the asset purchase agreement for the sale of our PCS branch network to UBS that closed in August 2006, we have retained liabilities arising from regulatory matters and certain PCS litigation arising prior to the sale. Adjustments to litigation reserves for matters pertaining to the PCS business would be included within discontinued operations on the consolidated statements of operations.

Given the uncertainties regarding timing, size, volume and outcome of pending and potential legal proceedings and other factors, the amounts of reserves are difficult to determine and of necessity subject to future revision. Subject to the foregoing, we believe, based on our current knowledge, after appropriate consultation with outside legal counsel and after taking into account our established reserves, that pending litigation, arbitration and regulatory proceedings will be resolved with no material adverse effect on our financial condition. However, if, during any period, a potential adverse contingency should become probable or resolved for an amount in excess of the established reserves and indemnification available to us, the results of operations in that period could be materially adversely affected.

INCOME TAXES

We file a consolidated U.S. federal income tax return, which includes all of our qualifying subsidiaries. We also are subject to income tax in various states and municipalities and those foreign jurisdictions in which we operate. Amounts provided for income taxes are based on income reported for financial statement purposes and do not necessarily represent amounts currently payable. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and for tax loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income taxes are provided for temporary differences in reporting certain items, principally, amortization of share-based compensation. The realization of deferred tax assets is assessed and a valuation allowance is recorded to the extent that it is more likely than not that any portion of the deferred tax asset will not be realized. We believe that our future taxable profits will be sufficient to recognize our U.S. deferred tax assets. If however, our projections of future taxable profits do not materialize, we may conclude that a valuation allowance is needed.

We record deferred tax benefits for future tax deductions expected upon the vesting of share-based compensation. If deductions reported on our tax return for share-based compensation (i.e., the value of the share-based compensation at the time of vesting) exceed the cumulative cost of those instruments recognized for financial reporting (i.e., the grant date fair value of the compensation computed in accordance with SFAS 123(R)), we record the excess tax benefit as additional paid-in capital. Conversely, if deductions reported on our tax return for share-based compensation are less than the cumulative cost of those instruments recognized for financial reporting, we offset the deficiency first to any previously recognized excess tax benefits recorded as additional paid-in capital and any remaining deficiency is recorded as income tax expense. As of June 30, 2009, we do not have any available excess tax benefits within additional paid-in capital.

We establish reserves for uncertain income tax positions in accordance with Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement 109" when, it is not more likely than not that a certain position or component of a position will be ultimately upheld by the relevant taxing authorities. Significant judgment is required in evaluating uncertain tax positions. Our tax provision and related accruals include the impact of estimates for uncertain tax positions and changes to the reserves that are considered appropriate. To the extent the probable tax outcome of these matters changes, such change in estimate will impact the income tax provision in the period of change.

Liquidity, Funding and Capital Resources

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

The majority of our tangible assets consist of assets readily convertible into cash. Financial instruments and other inventory positions are stated at fair value and are generally readily marketable in most market conditions. Receivables and payables with customers and brokers and dealers usually settle within a few days. As part of our liquidity strategy, we emphasize diversification of funding sources to the extent possible and maximize our lower-cost financing alternatives. Our assets are financed by our cash flows from operations, equity capital, proceeds from securities sold under agreements to repurchase and bank lines of credit. The fluctuations in cash flows from financing activities are directly related to daily operating activities from our various businesses.

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

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.

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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 program expires on June 30, 2010. In the second quarter of 2009, we did not repurchase any shares of our common stock under this authorization. Based upon prior repurchases, \$85 million of this authorization remains.

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 - We use uncommitted lines in the ordinary course of business to fund a portion of our daily operations, and the amount borrowed under our uncommitted lines varies daily based on our funding needs. Our uncommitted secured lines total \$285 million with four banks and are dependent on having appropriate collateral, as determined by the bank agreement, to secure an advance under the line. Collateral limitations could reduce the amount of funding available under these secured lines. We also have a \$100 million uncommitted unsecured facility with one of these banks. These uncommitted lines are discretionary and are not a commitment by the bank to provide an advance under the line. 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 our U.S. broker dealer subsidiary 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. On June 30, 2009, we had no advances against this line.

To finance customer and trade-related receivables we utilized an average of \$38 million in short-term bank loans during the second quarter of 2009. This compares to an average of \$95 million in short-term bank loans during the second quarter of 2008. Average net repurchase agreements (excluding repurchase agreements used to facilitate economic hedges) of \$90 million and \$173 million during the second quarter of 2009 and 2008, respectively, were primarily used to finance inventory. The decrease in average financing agreements in the second quarter of 2009 was primarily a result of lower inventory balances. Growth in our securities inventory is generally financed through a combination of repurchase agreements and bank financing.

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, 2008.

CAPITAL REQUIREMENTS

As a registered broker dealer and member firm of FINRA, our U.S. broker dealer subsidiary is subject to the uniform net capital rule of the SEC and the net capital rule of FINRA. We have elected to use the alternative method permitted by the uniform net capital rule, which requires that we maintain minimum net capital of the greater of \$1.0 million or 2 percent of aggregate debit balances arising from customer transactions, as this is defined in the rule. FINRA may prohibit a member firm from expanding its business or paying dividends if resulting net capital would be less than 5 percent of aggregate debit balances. Advances to affiliates, repayment of subordinated liabilities, dividend payments and other equity withdrawals are subject to certain notification and other provisions of the uniform net capital rule and the net capital rule of FINRA. We expect that these provisions will not impact our ability to meet current and future obligations. We also are subject to certain notification requirements related to withdrawals of excess net capital from our broker dealer subsidiary. At June 30, 2009, our net capital under the SEC's Uniform Net Capital Rule was \$293.0 million, and exceeded the minimum net capital required under the SEC rule by \$291.8 million.

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

Piper Jaffray Ltd., our broker dealer subsidiary registered in the United Kingdom, is subject to the capital requirements of the U.K. Financial Services Authority. Each of our Piper Jaffray Asia entities licensed by the Hong Kong Securities and Futures Commission is subject to the liquid capital requirements of the Securities and Futures (Financial Resources) Rule promulgated under the Securities and Futures Ordinance.

Off-Balance Sheet Arrangements

In the ordinary course of business we enter into various types of off-balance sheet arrangements. The following table summarizes our off-balance-sheet arrangements at June 30, 2009 and December 31, 2008:

Expiration Per Period at June 30, 2009 (Dollars in thousands)	2009	2010	2011- 2012	2013- 2014	Later	Total Contractual Amount	
						June 30, 2009	December 31, 2008
Customer matched-book derivative contracts (1)(2)	\$ 38,550	\$ —	\$ —	\$ 75,430	\$ 6,778,775	\$ 6,892,755	\$ 6,834,402
Trading securities derivative contracts (2)	—	—	—	—	211,500	211,500	114,500
Securitization transactions derivative contracts (2)	—	—	—	28,740	—	28,740	144,400
Loan commitments	—	—	—	—	—	—	—
Private equity and other principal investments (3)	—	—	—	—	—	3,399	3,694

- (1) Consists of interest rate swaps. We have minimal market risk related to these matched-book derivative contracts; however, we do have counterparty risk with one major financial institution, which is mitigated by collateral deposits. In addition, we have a limited number of counterparties (contractual amount of \$271.7 million at June 30, 2009) who are not required to post collateral. Based on market movements, the uncollateralized amounts representing the fair value of the derivative contract can become material, exposing us to the credit risk of these counterparties. As of June 30, 2009, we had \$22.6 million of credit exposure with these counterparties, including \$10.5 million of credit exposure with one counterparty.
- (2) We believe the fair value of these derivative contracts is a more relevant measure of the obligations because we believe the notional or contract amount overstates the expected payout. At June 30, 2009 and December 31, 2008, the net fair value of these derivative contracts approximated \$23.3 million and \$21.8 million, respectively.
- (3) The fund commitments have no specified call dates. The timing of capital calls is based on market conditions and investment opportunities.

DERIVATIVES

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

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

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At June 30, 2009, we had one securitization transaction in which highly rated fixed rate municipal bonds were sold into an SPE trust, whereby control remained with us and we are the primary beneficiary of the VIE. Accordingly, we have recorded an asset for the underlying bonds of \$28.8 million (par value \$28.7 million). The trust was funded by the sale of variable rate certificates to institutional customers seeking variable rate tax-free investment products. These variable rate certificates reprice weekly. We have recorded a liability for the certificates sold by the trust for \$28.7 million as of June 30, 2009. We have contracted with a major third-party financial institution to act as the liquidity provider for this trust, and we have agreed to reimburse the liquidity provider for any losses associated with providing liquidity to the trust. See Note 7, "Securitizations," in the notes to our unaudited 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 entities, see Note 8, "Variable Interest Entities," to our unaudited consolidated financial statements.

LOAN COMMITMENTS

We may commit to short-term bridge-loan financing for our clients or make commitments to underwrite corporate debt. We had no loan commitments outstanding at June 30, 2009.

PRIVATE EQUITY AND OTHER PRINCIPAL INVESTMENTS

We have committed capital to certain non-consolidated private-equity funds. We also may advance amounts to a non-consolidated entity that acts as the general partner of these private equity funds to account for timing differences between commitments made and investments received.

OTHER OFF-BALANCE SHEET EXPOSURE

Our other types of off-balance-sheet arrangements include contractual commitments. For a discussion of our activities related to these off-balance sheet arrangements, see Note 16, "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, 2008.

Enterprise Risk Management

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

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

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

MARKET RISK

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

Our different types of market risk include:

Interest Rate Risk — Interest rate risk represents the potential volatility from changes in market interest rates. We are exposed to interest rate risk arising from changes in the level and volatility of interest rates, changes in the shape of the yield curve, changes in credit spreads, and the rate of prepayments. Interest rate risk is managed through the use of appropriate hedging in U.S. government securities, agency securities, mortgage-backed securities, corporate debt securities, interest rate swaps, options, futures and forward contracts. We utilize interest rate swap contracts to hedge a portion of our fixed income inventory, to hedge residual cash flows from our tender option bond program, and to hedge rate lock agreements and forward bond purchase agreements we may enter into with our public finance customers. Our interest rate hedging strategies may not work in all market environments and as a result may not be effective in mitigating interest rate risk. These interest rate swap contracts are recorded at fair value with the changes in fair value recognized in earnings.

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

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

VALUE-AT-RISK

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

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

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

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

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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.

<i>(Dollars in thousands)</i>	June 30, 2009	December 31, 2008
Interest Rate Risk	\$ 1,189	\$ 2,494
Equity Price Risk	121	334
Diversification Effect (1)	(137)	(416)
Total Value-at-Risk	\$ 1,173	\$ 2,412

(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 six months ended June 30, 2009 and the year ended December 31, 2008.

For the Six Months Ended June 30, 2009

<i>(Dollars in thousands)</i>	High	Low	Average
Interest Rate Risk	\$ 1,832	\$ 531	\$ 1,084
Equity Price Risk	951	75	310
Diversification Effect (1)			(351)
Total Value-at-Risk	1,810	513	1,043

For the Year Ended December 31, 2008

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

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

Trading losses incurred on a single day exceeded our 95% one-day VaR on five occasions during the first half of 2009.

The aggregate VaR as of June 30, 2009 decreased compared to levels reported as of December 31, 2008. This was primarily due to the reduction of TOB program exposure, lower overall volatility during the period and on-going improvements in the management of our exposures.

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 a relatively low leverage ratio of 1.7 as of June 30, 2009 and net capital of \$293.0 million in our U.S. broker dealer as of June 30, 2009. We manage liquidity risk by diversifying our funding sources across products and among individual counterparties within those products. For example, our treasury department actively manages the use of repurchase agreements and secured and unsecured bank borrowings each day depending on pricing, availability of funding, available collateral and lending parameters from any one of these sources. We also added a committed bank line to our funding sources during 2008 to further manage liquidity risk.

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

We currently act as the remarketing agent for approximately \$6.8 billion of variable rate demand notes, all of which have a financial institution providing a liquidity guarantee. As remarketing agent for our clients' variable rate demand notes, we are the first source of liquidity for sellers of these instruments. At certain times, demand from buyers of variable rate demand notes is less than the supply generated by sellers of these instruments. In times of supply and demand imbalance we may (but are not obligated to) facilitate liquidity by purchasing variable rate demand notes from sellers for our own account. Our liquidity risk related to variable rate demand notes is ultimately mitigated by our ability to tender these securities back to the financial institution providing the liquidity guarantee.

CREDIT RISK

Credit risk in our business arises from potential non-performance by counterparties, customers, borrowers or issuers of securities we hold in our trading inventory. The global credit crisis also has created increased credit risk, particularly counterparty risk, as the interconnectedness of the financial markets has caused market participants to be impacted by systemic pressure, or contagion, that results from the failure or expected failure of large market participants.

We have concentrated counterparty credit exposure with six non-publicly rated entities totaling \$22.6 million at June 30, 2009. This counterparty credit exposure is part of our matched-book derivative program, consisting primarily of interest rate swaps. One derivative counterparty represents 46 percent, or \$10.5 million, of this credit exposure. Credit exposure associated with our derivative counterparties is driven by uncollateralized market movements in the fair value of the interest rate swap contracts and is monitored regularly by our market and credit risk committee.

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

Credit exposure associated with our customer margin accounts in the U.S. and Hong Kong is monitored daily. Our risk management functions have created credit risk policies establishing appropriate credit limits and collateralization thresholds for our customers utilizing margin lending. In the fourth quarter of 2008, we made a determination to exit the Hong Kong retail business, which reduced our margin lending exposure in early 2009.

Credit exposure associated with our bridge-loan financings is monitored regularly by our market and credit risk committee. Bridge-loan financings that have been funded are recorded in other assets at amortized cost on the consolidated statement of financial condition. At June 30, 2009 we had two bridge-loan financings funded totaling \$19.6 million. One of these bridge loans totaling \$12.6 million is in default as of June 30, 2009; however, we currently believe that the value of our secured collateral exceeds \$12.6 million and accordingly we have not recorded an impairment loss on this loan as of June 30, 2009.

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., filed for bankruptcy protection exposing us to \$3.0 million in unsecured receivables for which we are fully reserved.

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

We also are exposed to the risk of loss related to changes in the credit spreads of debt instruments. Credit spread risk arises from potential changes in an issuer's credit rating or the market's perception of the issuer's credit worthiness.

OPERATIONAL RISK

Operational risk refers to the risk of direct or indirect loss resulting from inadequate or failed internal processes, personnel 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 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 second quarter of our fiscal year ended December 31, 2009, 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, 2008.

Municipal Contract Matters

Regarding the class action complaints, which have been consolidated in *In re Municipal Derivatives Antitrust Litigation*, MDL No. 1950 (Master Docket No. 08-2516), defendants motion for summary judgment was granted on April 29, 2009. On June 18, 2009, plaintiffs filed a second consolidated amended class action complaint naming us among various other parties and which is now pending before the court.

Auction Rate Securities

On July 10, 2009, we were advised by the SEC that it had completed its investigation and did not intend to recommend any enforcement action by the Commission. Under SEC guidelines, such a communication means only that the staff has completed its investigation and that no enforcement action has been recommended at that time; it is not to be construed as indicating that a party has been exonerated or that no action may ultimately result from the staff’s investigation.

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, 2008 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.

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 June 30, 2009.

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.

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(1)</u>
Month #1 (April 1, 2009 to April 30, 2009)	183(2)	\$ 25.69	0	\$85 million
Month #2 (May 1, 2009 to May 31, 2009)	3,786(2)	\$ 31.72	0	\$85 million
Month #3 (June 1, 2009 to June 30, 2009)	978(2)	\$ 39.88	0	\$85 million
Total	<u>4,947</u>	<u>\$ 33.11</u>	<u>0</u>	<u>\$85 million</u>

- (1) On April 16, 2008, we announced that our board of directors had authorized the repurchase of up to \$100 million of common stock through June 30, 2010.
- (2) Consists of shares of common stock withheld from recipients of restricted stock to pay taxes upon the vesting of the restricted stock.

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

- (a) The Company's 2009 annual meeting of shareholders was held on May 7, 2009. The holders of 16,774,567 shares of common stock, 85 percent of the outstanding shares entitled to vote as of the record date, were represented at the meeting in person or by proxy.
- (c) At the annual meeting, Michael R. Francis, B. Kristine Johnson, Addison L. Piper, Lisa K. Polsky and Jean M. Taylor were elected as directors to serve a one-year term expiring at the annual meeting of shareholders in 2009. The following table shows the vote totals for each of these individuals:

<u>Name</u>	<u>Votes For</u>	<u>Authority Withheld</u>
Michael R. Francis	15,385,943	1,388,624
B. Kristine Johnson	14,209,834	2,564,733
Addison L. Piper	15,899,944	874,623
Lisa K. Polsky	15,125,858	1,648,709
Jean M. Taylor	15,542,496	1,232,071

At the annual meeting, our shareholders also approved the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan. The following table indicates the specific voting results for this proposal:

<u>Proposal</u>	<u>Votes For</u>	<u>Votes Against</u>	<u>Abstentions</u>	<u>Broker Non-Votes</u>
Approval of the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan	10,097,538	5,070,379	73,735	1,532,915

ITEM 6. EXHIBITS

<u>Exhibit Number</u>	<u>Description</u>	<u>Method of Filing</u>
10.1	Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan	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 July 31, 2009.

PIPER JAFFRAY COMPANIES

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

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

Exhibit Index

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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

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

(as amended and restated effective May 7, 2009)

SECTION 1. Purpose

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

SECTION 2. Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(u) “Performance Goals” means the performance goals established by the Committee in connection with the grant of an Award. In the case of Qualified Performance-Based Awards, (i) such goals shall be based on the attainment of specified levels of one or more of the following measures with respect to the Company or such subsidiary, division or department of the

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

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

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

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

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

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

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

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

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

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

SECTION 3. Administration

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

- (i) designate Participants;
- (ii) determine whether and to what extent any type (or types) of Award is to be granted hereunder;
- (iii) determine the number of Shares to be covered by (or the method by which payments or other rights are to be determined in connection with) each Award;
- (iv) determine the terms and conditions of any Award or Award Agreement;
- (v) subject to Section 9 hereof, amend the terms and conditions of any Award or Award Agreement and accelerate the vesting and/or exercisability of any Stock Option or waive any restrictions relating to any Award; provided, however, that (A) except for adjustments pursuant to Section 4(c) of the Plan, in no event may any Stock Option granted under this Plan be (x) amended to decrease the Exercise Price thereof, (y) cancelled in conjunction with the grant of any new Stock Option with a lower Exercise Price, or (z) otherwise subject to any action that would be treated, for accounting purposes, as a “repricing” of such Stock Option, unless such amendment, cancellation, or action is approved by the stockholders of the Company to the extent required by applicable law and stock exchange rules and (B) the Committee may not adjust upwards the amount payable to a Covered Employee with respect to a Qualified Performance-Based Award or waive or alter the Performance Goals associated therewith in a manner that would violate Section 162(m) of the Code.
- (vi) determine whether, to what extent and under what circumstances the exercise price of Awards may be paid in cash, Shares, other securities, other Awards or other property, or canceled, forfeited or suspended;
- (vii) determine whether, to what extent and under what circumstances cash, Shares, other securities, other Awards, other property and other amounts payable with respect to an Award under the Plan shall be deferred either automatically or at the election of the holder thereof or the Committee;
- (viii) interpret and administer the Plan and any instrument or agreement, including an Award Agreement, relating to the Plan;
- (ix) adopt, alter, suspend, waive or repeal such rules, guidelines and practices and appoint such agents as it shall deem advisable or appropriate for the proper administration of the Plan; and
- (x) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of the Plan.

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

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

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

SECTION 4. Shares Available for Awards

(a) Shares Available. Subject to adjustment as provided in Section 4(c) of the Plan, the aggregate number of Shares that may be issued under the Plan shall be 7,000,000. Shares that may be issued under the Plan may be authorized but unissued Shares or Shares re-acquired and held in treasury.

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

(c) Adjustments. In the event of any change in corporate capitalization (including, but not limited to, a change in the number of Shares outstanding), such as a stock split or a corporate transaction, such as any merger, consolidation, separation, including a spin-off, or other distribution of stock or property of the Company (including any extraordinary cash or stock dividend), any reorganization (whether or not such reorganization comes within the definition of such term in Section 368 of the Code) or any partial or complete liquidation of the Company, the Committee or Board shall make such substitution or adjustments in the aggregate number and kind of shares reserved for issuance under the Plan, and the maximum limitation upon Stock Options and Stock Appreciation Rights and other Awards to be granted

to any Participant, in the number, kind and Exercise Price of shares subject to outstanding Stock Options and Stock Appreciation Rights, in the number and kind of shares subject to other outstanding Awards granted under the Plan and/or such other equitable substitution or adjustments as it may determine to be appropriate in its sole discretion (including, without limitation, the provision of an amount in cash in consideration for any such Awards); provided, however, that the number of shares subject to any Award shall always be a whole number. Without limiting the generality of the foregoing, in connection with any Disaffiliation of a subsidiary of the Company, the Committee shall have the authority to arrange for the assumption or replacement of Awards with new awards based on shares of the affected subsidiary or by an affiliate of an entity that controls the subsidiary following the Disaffiliation. For purposes hereof, "Disaffiliation" of a subsidiary shall mean the subsidiary's ceasing to be a subsidiary of the Company for any reason (including, without limitation, as a result of a public offering, spin-off, sale or other distribution or transfer by the Company of the stock of the subsidiary). Notwithstanding the foregoing, to the extent that any Award is otherwise considered to be deferred compensation under Section 409A of the Code, any adjustment to such Award will comply with Section 409A of the Code (including current and future guidance issued by the Department of Treasury and or the Internal Revenue Service).

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

SECTION 5. Eligibility

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

SECTION 6. Awards

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

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

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

(iii) Time and Method of Exercise. The Committee shall determine the time or times at which a Stock Option may be exercised in whole or in part and the method or methods by which, and the form or forms (including, without limitation, cash, Shares, other securities, other Awards or other property, or any combination thereof, having a

Fair Market Value on the exercise date equal to the applicable Exercise Price) in which, payment of the Exercise Price with respect thereto may be made or deemed to have been made.

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

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

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

(ii) Stock Certificates; Delivery of Shares.

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

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

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

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

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

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

(g) Other Stock-Based Awards. The Committee is hereby authorized to grant to Eligible Individuals, subject to the terms of the Plan, such other Awards that are denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to,

Shares (including, without limitation, securities convertible into Shares), as are deemed by the Committee to be consistent with the purpose of the Plan. Shares or other securities delivered pursuant to a purchase right granted under this Section 6(g) shall be purchased for such consideration, which may be paid by such method or methods and in such form or forms (including, without limitation, cash, Shares, other securities, other Awards or other property or any combination thereof), as the Committee shall determine, the value of which consideration, as established by the Committee, shall not be less than 100% of the Fair Market Value of such Shares or other securities as of the date such purchase right is granted.

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

(i) General.

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

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

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

(iv) Limits on Transfer of Awards. No Award (other than Other Stock Grants) and no right under any such Award shall be transferable by a Participant otherwise than by will or by the laws of descent and distribution and the Company shall not be required to recognize any attempted assignment of such rights by any Participant; provided, however, that, if so determined by the Committee, a Participant may, in the manner established by the Committee, designate a beneficiary or

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

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

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

SECTION 7. Change in Control

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

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

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

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

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

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

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

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

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

Transaction or the combined voting power of the outstanding voting securities of such corporation entitled to vote generally in the election of directors except to the extent that such ownership existed prior to the Corporate Transaction, and (3) individuals who were members of the Incumbent Board will constitute at least a majority of the members of the board of directors of the corporation resulting from such Corporate Transaction; or

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

SECTION 8. Income Tax Withholding

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

SECTION 9. Amendment and Termination

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

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

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

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

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

SECTION 10. General Provisions

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

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

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

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

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

employment free from any liability or any claim under the Plan or any Award, unless otherwise expressly provided in the Plan or in any Award Agreement.

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

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

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

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

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

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

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

(m) Section 16 Compliance; Section 162(m) Administration. The Plan is intended to comply in all respects with Rule 16b-3 or any successor provision, as in effect from time to time, and in all events the Plan shall be construed in accordance with the requirements of Rule 16b-3. If any Plan provision does not comply with Rule 16b-3 as hereafter amended or interpreted, the provision shall be deemed inoperative. The Board, in its absolute discretion, may bifurcate the Plan so as to restrict, limit or condition the use of any provision of the Plan with respect to persons who are officers or directors subject to Section 16 of the Exchange Act

without so restricting, limiting or conditioning the Plan with respect to other Eligible Individuals. The Company intends that all Stock Options and Stock Appreciation Rights granted under the Plan to individuals who are or who the Committee believes will be Covered Employees will constitute “qualified performance-based compensation” within the meaning of Section 162(m) of the Code.

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

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

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

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

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

Policy will apply uniformly to all nonqualified deferred compensation plans subject to Code Section 409A that are maintained by the Company or an Affiliate.

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

SECTION 11. Effective Date of Plan

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

SECTION 12. Term of the Plan

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

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: July 31, 2009

/s/ Andrew S. Duff

Andrew S. Duff
Chairman and Chief Executive Officer

CERTIFICATIONS

I, Debra 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: July 31, 2009

/s/ Debra L. Schoneman

Debra L. Schoneman
Chief Financial Officer

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: July 31, 2009

/s/ Andrew S. Duff

Andrew S. Duff

Chairman and Chief Executive Officer

/s/ Debra L. Schoneman

Debra L. Schoneman

Chief Financial Officer

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