

*Consolidated*  
*Statement of Financial Condition*

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June 30, 2008

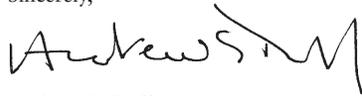
PiperJaffray®

Dear Client:

The following information outlines the financial condition of Piper Jaffray & Co. We have approximately \$1.4 billion in assets and are capitalized with approximately \$758 million in equity capital. As described in the notes, we have \$246.2 million in net regulatory capital and have exceeded the minimum net capital required under the SEC rule by \$244.3 million.

At Piper Jaffray, we are focused on building the leading middle market investment bank and institutional securities firm. We will grow our business by deepening our expertise in select sectors, broadening our product offerings to serve our clients' full business needs and extending our geographic reach in an increasingly international market. As we state in our Guiding Principles, serving you is our fundamental purpose. We value the trust you have placed in us and look forward to furthering our relationship with you.

Sincerely,

A handwritten signature in black ink, appearing to read "Andrew S. Duff". The signature is fluid and cursive, with a large, stylized "M" at the end.

Andrew S. Duff  
Chairman & CEO

Piper Jaffray & Co.  
Consolidated Statement of Financial Condition (unaudited)  
June 30, 2008

*(Amounts in thousands)*

**Assets**

Cash and cash equivalents	\$ 2,527
Cash and cash equivalents segregated for regulatory purposes	7,000
Receivables:	
Customers	61,359
Brokers, dealers and clearing organizations	57,768
Deposits with clearing organizations	34,440
Securities purchased under agreements to resell	83,074
Financial instruments and other inventory positions owned	477,602
Financial instruments and other inventory positions owned and pledged as collateral	243,023
Total financial instruments and other inventory positions owned	<u>720,625</u>
Fixed assets (net of accumulated depreciation and amortization of \$56,549)	19,473
Goodwill	231,567
Other receivables	36,729
Other assets	98,152
Total assets	<u>\$ 1,352,714</u>

**Liabilities and Shareholder's Equity**

Short-term bank financing	\$ 148,000
Payables:	
Customers	46,262
Checks and drafts	5,243
Brokers, dealers and clearing organizations	90,520
Securities sold under agreements to repurchase	68,703
Financial instruments and other inventory positions sold, but not yet purchased	143,861
Accrued compensation	45,019
Other liabilities and accrued expenses	46,975
Total liabilities	<u>594,583</u>
Shareholder's equity	<u>758,131</u>
Total liabilities and shareholder's equity	<u>\$ 1,352,714</u>

*See Notes to Consolidated Financial Statements*

## Notes to Consolidated Statement of Financial Condition as of June 30, 2008 (unaudited)

### NOTE 1. BACKGROUND

Piper Jaffray & Co. (the “Company”) is a wholly owned subsidiary of Piper Jaffray Companies (“Parent Company”). The Parent Company is a public holding company incorporated in Delaware and traded on the New York Stock Exchange (“NYSE”). The Company is a self-clearing securities broker dealer and investment banking firm registered under the Securities and Exchange Act of 1934 and is a member of the Financial Industry Regulatory Authority (“FINRA”). As such, the Company trades and effects transactions in listed and unlisted equity and fixed income securities, underwrites and conducts secondary trading in corporate and municipal securities, acts as a broker of option contracts and provides various other financial services.

### NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Principles of Consolidation*

The consolidated statement of financial condition includes the accounts of Piper Jaffray & Co. and all other entities in which the Company has a controlling financial interest. All material intercompany accounts and transactions have been eliminated. The Company determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity, a variable interest entity (“VIE”), a special-purpose entity (“SPE”), or a qualifying special-purpose entity (“QSPE”) under U.S. generally accepted accounting principles.

Voting interest entities are entities in which the total equity investment at risk is sufficient to enable each entity to finance itself independently and provides the equity holders with the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity’s activities. Voting interest entities are consolidated in accordance with Accounting Research Bulletin No. 51, “Consolidated Financial Statements,” (“ARB 51”), as amended. ARB 51 states that the usual condition for a controlling financial interest in an entity is ownership of a majority voting interest. Accordingly, the Company consolidates voting interest entities in which it has all, or a majority of, the voting interest.

As defined in Financial Accounting Standards Board Interpretation No. 46(R), “Consolidation of Variable Interest Entities,” (“FIN 46(R)”), VIEs are entities that lack one or more of the characteristics of a voting interest entity described above. FIN 46(R) states that a controlling financial interest in an entity is present when an enterprise has a variable interest, or combination of variable interests, that will absorb a majority of the entity’s expected losses, receive a majority of the entity’s expected residual returns, or both. The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE. Accordingly, the Company consolidates VIEs in which the Company is deemed to be the primary beneficiary.

SPEs are trusts, partnerships or corporations established for a particular limited purpose. The Company follows the accounting guidance in Statement of Financial Accounting Standards No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities,” (“SFAS 140”), to determine whether or not such SPEs are required to be consolidated. The Company establishes SPEs to securitize fixed rate municipal bonds. The majority of these securitizations meet the SFAS 140 definition of a QSPE. A QSPE can generally be described as an entity with significantly limited powers that are intended to limit it to passively holding financial assets and distributing cash flows based upon predetermined criteria. Based upon the guidance in SFAS 140, the Company does not consolidate such QSPEs. The Company accounts for its involvement with such QSPEs under a financial components approach in which the Company recognizes only its retained residual interest in the QSPE. The Company accounts for such retained interests at fair value.

Certain SPEs do not meet the QSPE criteria because their permitted activities are not sufficiently limited or control remains with one of the owners. These SPEs are typically considered VIEs and are reviewed under FIN 46(R) to determine the primary beneficiary.

When the Company does not have a controlling financial interest in an entity but exerts significant influence over the entity’s operating and financial policies (generally defined as owning a voting or economic interest of between 20 percent to 50 percent), the Company accounts for its investment in accordance with the equity method of accounting prescribed by Accounting Principles Board Opinion No. 18, “The Equity Method of Accounting for Investments in Common Stock.” If the Company does not have a controlling financial interest in, or exert significant influence over, an entity, the Company accounts for its investment at fair value.

#### *Use of Estimates*

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

### *Cash and Cash Equivalents*

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

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

### *Collateralized Securities Transactions*

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

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

Interest is accrued on securities borrowed and loaned transactions and is included in other receivables and other liabilities and accrued expenses on the consolidated statement of financial condition.

### *Customer Transactions*

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

### *Allowance for Doubtful Accounts*

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

### *Financial Instruments and Other Inventory Positions*

Financial instruments and other inventory positions owned and financial instruments and other inventory positions sold, but not yet purchased, are carried at fair value on the consolidated statement of financial condition. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. the exit price). Securities (both long and short) are recognized on a trade-date basis.

### *Fair Value Hierarchy*

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

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

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

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

#### *Valuation of Financial Instruments*

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

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

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

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

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

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

### ***Fixed Assets***

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

### ***Leases***

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

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

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

### ***Goodwill and Intangible Assets***

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

Intangible assets with determinable lives consist of software technologies that were amortized over three years.

### ***Other Receivables***

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

### ***Other Assets***

Other assets includes investments in partnerships, investments to fund deferred compensation liabilities, prepaid expenses, and net deferred tax assets.

### ***Income Taxes***

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

### **NOTE 3. RECENT ACCOUNTING PRONOUNCEMENTS**

Effective January 1, 2008, the Company adopted SFAS 157. Prior to January 1, 2008, the Company followed the AICPA Audit and Accounting Guide, Brokers and Dealers in Securities, when determining fair value for financial instruments. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. Further, SFAS 157 disallows the use of block discounts on positions traded in an active market and nullifies certain guidance regarding the recognition of inception gains on certain derivative transactions. The impact of adopting SFAS 157 in our first quarter of 2008 was not material to our consolidated financial statements. See Note 5, "Fair Value of Financial Instruments" to the consolidated financial statement for additional information.

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 permits entities to choose to measure certain financial assets and liabilities and other eligible items at fair value, which are not otherwise currently allowed to be measured at fair value. Under SFAS 159, the decision to measure items at fair value is made at specified election dates on an irrevocable instrument-by-instrument basis. Entities electing the fair value option would be required to recognize changes in fair value in earnings and to expense upfront costs and fees associated with the item for which the fair value option is elected. Entities electing the fair value option are required to distinguish on the face of the statement of financial position, the fair value of assets and liabilities for which the fair value option has been elected and similar assets and liabilities measured using another measurement attribute. The Company did not make any elections under SFAS 159 to apply fair value to additional financial assets and liabilities.

Effective January 1, 2008, the Company adopted FSP No. FIN 39-1, "Amendment of FASB Interpretation No. 39" ("FSP FIN 39-1"). FSP FIN 39-1 modifies FIN No. 39, "Offsetting of Amounts Related to Certain Contracts," and permits companies to offset cash collateral receivables or payables with net derivative positions under certain circumstances. The adoption of FSP FIN 39-1 did not have a material effect on the consolidated financial statement of the Company.

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

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, "Noncontrolling Interest in Consolidated Financial Statements" ("SFAS 160"). SFAS 160 re-characterizes minority interests in consolidated subsidiaries as non-controlling interests and requires the classification of minority interests as a component of equity. Under SFAS 160, a change in control will be measured at fair value, with any gain or loss recognized in earnings. SFAS 160 is effective for fiscal years beginning after December 15, 2008. We are evaluating the impact of SFAS 160 on our consolidated financial statements.

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

**NOTE 4. 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:

*(Amounts in thousands)*

Financial instruments and other inventory positions owned:

Corporate securities:	
Equity securities	\$ 21,945
Convertible securities	84,399
Fixed income securities	34,609
Municipal Securities:	
Auction rate municipal securities	70,025
Variable rate demand notes	43,155
Other municipal securities	277,047
Asset-backed securities	56,016
U.S. government agency securities	84,577
U.S. government securities	34,052
Derivative contracts	14,800
	<u>\$ 720,625</u>

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

Corporate securities:	
Equity securities	\$ 44,613
Convertible securities	319
Fixed income securities	23,994
Municipal securities	419
U.S. government agency securities	5,466
U.S. government securities	59,055
Other	9,995
	<u>\$ 143,861</u>

At June 30, 2008, financial instruments and other inventory positions owned in the amount of \$243.0 million 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 statement of financial condition. The Company economically hedges changes in market value of its financial instruments and other inventory positions owned utilizing inventory positions sold, but not yet purchased, interest rate swaps, futures and exchange-traded options.

***Derivative Contract Financial Instruments***

The Company uses interest rate swaps, interest rate locks, and forward contracts to facilitate customer transactions and as a means to manage risk in certain inventory positions. Interest rate swaps are also used to manage interest rate exposure associated with holding residual interest securities from the Company's tender option bond program. As of June 30, 2008, the Company was counterparty to notional/contract amounts of \$84.5 million of derivative instruments.

The Company's derivative contracts are recorded at fair value. Fair values for derivative contracts represent amounts estimated to be received from or paid to a counterparty in settlement of these instruments. These derivatives are valued using quoted market prices when available or pricing models based on the net present value of estimated future cash flows. The valuation models used require inputs including contractual terms, market prices, yield curves, credit curves and measures of volatility. Derivatives are reported on a net-by-counterparty basis when legal right of offset exists and on a net-by-cross product basis when applicable provisions are stated in master netting agreements. Cash collateral received or paid is netted on a counterparty basis, provided a legal right of offset exists.

## NOTE 5. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company records financial instruments and other inventory positions owned and financial instruments and other inventory positions sold, but not yet purchased, at fair value on the consolidated statement of financial condition.

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

The following table summarizes the valuation of our financial instruments by SFAS 157 pricing observability levels as of June 30, 2008:

	<u>Level I (1)</u>	<u>Level II (1)</u>	<u>Level III (1)</u>	<u>Counterparty Collateral Netting (2)</u>	<u>Total</u>
<i>(Amounts in thousands)</i>					
<b>Assets:</b>					
Financial instruments and other inventory positions owned:					
Non-derivative instruments	\$ 60,810	\$ 529,728	\$ 115,287	\$ -	\$ 705,825
Derivative instruments	-	29,651	-	(14,851) <sup>(4)</sup>	14,800
Total financial instruments and other inventory positions owned:	\$ 60,810	\$ 559,379	\$ 115,287	\$ (14,851)	\$ 720,625
Investments	\$ -	\$ -	\$ 20,548	\$ -	\$ 20,548
Level III investments for which the Company does not bear economic exposure			(5,179) <sup>(3)</sup>		
Level III investments for which the Company bears economic exposure			\$ 15,369		
<b>Liabilities:</b>					
Financial instruments and other inventory positions sold, but not yet purchased:					
Non-derivative instruments	\$ 63,863	\$ 78,118	\$ 1,880	\$ -	\$ 143,861
Derivative instruments	-	-	-	-	-
Total financial instruments and other inventory positions sold, but not yet purchased:	\$ 63,863	\$ 78,118	\$ 1,880	\$ -	\$ 143,861
Investments	\$ -	\$ -	\$ 4,341	\$ -	\$ 4,341

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

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

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

(4) *The Company posted \$14.9 million of short-term U.S. treasury bonds as collateral at June 30, 2008.*

#### NOTE 6. SECURITIZATIONS

In connection with its tender option bond program, the Company has securitized one highly rated municipal bond. The municipal bond is sold into a separate trust that is funded by the sale of variable rate certificates to institutional customers seeking variable rate tax-free investment products. These variable rate certificates reprice weekly. Securitization transactions meeting certain SFAS 140 criteria are treated as sales, with the resulting gain included in institutional brokerage revenue on the consolidated statement of operations. If a securitization does not meet the asset sale requirements of SFAS 140, the transaction is recorded as a borrowing.

The Company's securitization transaction was designed such that it did not meet the asset sale requirements of SFAS 140, causing the Company to consolidate this trust. As a result, the Company recorded an asset for the underlying bonds of \$10.0 million as of June 30, 2008, in trading securities owned and a liability for the certificates sold by the trust for \$10.0 million in other liabilities and accrued expenses on the consolidated statement of financial condition.

#### NOTE 7. RECEIVABLES FROM AND PAYABLES TO BROKERS, DEALERS AND CLEARING ORGANIZATIONS

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

*(Amounts in thousands)*

Receivable arising from unsettled securities transactions, net	\$	-
Deposits paid for securities borrowed		49,308
Receivable from clearing organizations		554
Securities failed to deliver		4,323
Other		3,583
		<hr/>
Total receivables	\$	<u>57,768</u>

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

*(Amounts in thousands)*

Payable arising from unsettled securities transactions, net	\$	71,885
Payable to clearing organizations		13,443
Securities failed to receive		5,190
Other		2
		<hr/>
Total payables	\$	<u>90,520</u>

#### NOTE 8. OTHER ASSETS

Other assets includes investments in partnerships and investments to fund deferred compensation liabilities that are valued at fair value, net deferred tax assets, income tax receivable and prepaid expenses. In addition, other assets includes 55,440 shares of NYSE Euronext, Inc. common stock subject to restrictions on transfer until March 2009. Fair value of these shares are determined based upon quoted market prices with a valuation adjustment for the restriction.

Other assets at June 30, 2008 included:

*(Amounts in thousands)*

Investments	\$	20,548
Deferred income tax asset		38,396
Income taxes receivable		14,510
Prepaid expenses		8,194
Intercompany receivable		15,520
Other		984
		<hr/>
Total other assets	\$	<u>98,152</u>

#### NOTE 9. 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, 2008:

*(Amounts in thousands)*

Goodwill	
Balance at December 31, 2007	\$ 231,567
Goodwill acquired	-
Impairment losses	-
	<hr/>
Balance at June 30, 2008	\$ 231,567

#### NOTE 10. FINANCING

The Company has discretionary short-term financing available on both a secured and unsecured basis. In addition, the Company has established arrangements to obtain financing using as collateral the Company's securities held by its clearing bank and by another broker dealer at the end of each business day. Repurchase agreements and securities loaned to other broker dealers are also used as sources of funding.

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

On December 31, 2007, the Company entered into an agreement whereby a third party has agreed to provide up to \$50 million in temporary subordinated debt upon approval by the FINRA.

#### NOTE 11. 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. In addition to the Company's established reserves, U.S. Bancorp, from whom the Company spun-off on December 31, 2003, has agreed to indemnify the Company in an amount up to \$17.5 million for certain legal and regulatory matters. Approximately \$12.8 million of this amount remained available as of June 30, 2008.

As part of the asset purchase agreement between UBS and the Company for the sale of the PCS branch network, UBS agreed to assume certain liabilities of the PCS business, including certain liabilities and obligations arising from litigation, arbitration, customer complaints and other claims related to the PCS business. In certain cases, we have agreed to indemnify UBS for litigation matters after UBS has incurred costs of \$6.0 million related to these matters. In addition, we have retained liabilities arising from regulatory matters and certain litigation relating to the PCS business prior to the sale. The amount of exposure in excess of the \$6.0 million indemnification threshold and for other PCS litigation matters deemed to be probable and reasonably estimable are included in the Company's established reserves.

Given uncertainties regarding the timing, scope, volume and outcome of pending and potential litigation, arbitration and regulatory proceedings and other factors, the amounts of reserves are difficult to determine and of necessity subject to future revision. Subject to the foregoing, management of the Company believes, based on its current knowledge, after consultation with outside legal counsel and after taking into account its established reserves, the U.S. Bancorp indemnity agreement, the assumption by UBS of certain liabilities of the PCS business and our indemnification obligations to UBS, that pending legal actions, investigations and proceedings will be resolved with no material adverse effect on the consolidated financial condition of the Company.

#### NOTE 12. STOCK-BASED COMPENSATION

The Parent Company maintains one stock-based compensation plan, the Piper Jaffray Companies Long-Term Incentive Plan. The plan permits the grant of equity awards, including non-qualified stock options and restricted stock, to the Company's employees. The Company periodically grants shares of restricted stock and options to purchase Piper Jaffray Companies common stock to employees.

#### NOTE 13. NET CAPITAL REQUIREMENTS AND OTHER REGULATORY MATTERS

The Company is registered as a securities broker dealer and an investment advisor with the SEC and is a member of various Self Regulatory Organizations (“SRO”) and securities exchanges. In July of 2007, the National Association of Securities Dealers, Inc. (“NASD”) and the member regulation, enforcement and arbitration functions of the New York Stock Exchange (“NYSE”) consolidated to form FINRA, which now serves as our primary SRO. The Company is subject to the uniform net capital rule of the SEC and the net capital rule of FINRA. The Company has elected to use the alternative method permitted by the SEC rule, which requires that it maintain minimum net capital of the greater of \$1.0 million or 2 percent of aggregate debit balances arising from customer transactions, as such term is defined in the SEC rule. Under the FINRA rule, FINRA may prohibit a member firm from expanding its business or paying dividends if resulting net capital would be less than 5 percent of aggregate debit balances. Advances to affiliates, repayment of subordinated debt, dividend payments and other equity withdrawals by the Company are subject to certain notification and other provisions of the SEC and FINRA rules. In addition, the Company is subject to certain notification requirements related to withdrawals of excess net capital.

At June 30, 2008, net capital calculated under the SEC rule was \$246.2 million, and exceeded the minimum net capital required under the SEC rule by \$244.3 million.

#### NOTE 14. RELATED PARTY TRANSACTIONS

The Company has significant transactions with the Parent Company and the Parent Company’s other subsidiaries. The Company arranges for the purchase or sale of securities, manages investments, markets derivative instruments and structures complex transactions for affiliates. Pursuant to shared services agreements, the Company records a portion of the revenues earned by affiliates in return for services provided to affiliates. Certain operating expenses, along with advances for certain investments, incurred by affiliates are initially paid by the Company and subsequently reimbursed by the affiliates. At June 30, 2008, receivables from affiliates of \$15.5 million were included in other assets on the consolidated statement of financial condition, representing the amounts receivable for related party transactions.

# PiperJaffray®

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