Consolidated Statement of Financial Condition

June 30, 2009

PiperJaffray®

Dear Client:

The following information outlines the financial condition of Piper Jaffray & Co. We have approximately $1.1 billion in assets and are capitalized with approximately $667 million in equity capital. As described in the notes, we have $293.0 million in net regulatory capital and have exceeded the minimum net capital required under the SEC rule by $291.8 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,

Andrew S. Duff
Chairman & CEO

Piper Jaffray & Co.
Consolidated Statement of Financial Condition (unaudited)
June 30, 2009

(Amounts in thousands)

Assets		
Cash and cash equivalents	$	5,606
Cash and cash equivalents segregated for regulatory purposes		1,006
Receivables:		
Customers		53,053
Brokers, dealers and clearing organizations		77,079
Deposits with clearing organizations		33,806
Securities purchased under agreements to resell		159,462
Financial instruments and other inventory positions owned		382,902
Financial instruments and other inventory positions owned and pledged as collateral		129,600
Total financial instruments and other inventory positions owned		512,502
Fixed assets (net of accumulated depreciation and amortization of $59,171)		14,909
Goodwill		111,051
Other receivables		38,621
Other assets		137,437
Total assets	$	1,144,532
Liabilities and Shareholder's Equity		
Short-term bank financing	$	63,000
Payables:		
Customers		26,387
Checks and drafts		3,502
Brokers, dealers and clearing organizations		5,201
Securities sold under agreements to repurchase		61,298
Financial instruments and other inventory positions sold, but not yet purchased		177,584
Accrued compensation		63,542
Other liabilities and accrued expenses		77,381
Total liabilities		477,895
Shareholder's equity		666,637
Total liabilities and shareholder's equity	$	1,144,532

See Notes to Consolidated Statement of Financial Condition

Notes to Consolidated Statement of Financial Condition as of June 30, 2009 (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, where the Company has a majority interest, are consolidated in accordance with Accounting Research Bulletin No. 51, "Consolidated Financial Statements," ("ARB 51"), as amended. ARB 51 states that the usual condition for a controlling financial interest in an entity is ownership of a majority voting interest. Accordingly, the Company consolidates voting interest entities in which it has all, or a majority of, the voting interest.

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

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

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

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

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 statement of financial condition and unrecognized subsequent events are excluded from the consolidated statement of financial condition but disclosed in the notes to the consolidated statement of financial condition if their effect is material. In accordance with SFAS 165, the Company evaluated subsequent events through July 31, 2009, the date the Parent Company's consolidated financial statements were issued and no events or transactions occurred.

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 payables 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. 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.

Fair Value of Financial Instruments

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 equities listed in active markets, certain U.S. treasury bonds, money market securities and certain firm investments.

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

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

Certain non-financial assets and non-financial liabilities measured at fair value on a recurring basis include reporting units measured at fair value in the first step of the goodwill impairment test. Certain non-financial assets and non-financial liabilities measured at fair-value on a non-recurring basis include non-financial assets and non-financial liabilities measured at fair value in the second step of a goodwill impairment test, as well as intangible assets measured at fair value for impairment assessment.

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.

Fixed Assets

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

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

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

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

Goodwill
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 Parent Company's market capitalization and the present value of the estimated future cash flows associated with the goodwill.

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

Other Assets
Other assets include net deferred tax assets, prepaid expenses, intercompany receivables and proprietary investments. The Company's investments include investments in partnerships and investments to fund deferred compensation liabilities.

Income Taxes
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
In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), "Business Combinations" ("SFAS 141(R)"). SFAS 141(R) expands the definition of transactions and events that qualify as business combinations; requires that acquired assets and liabilities, including contingencies, be recorded at the fair value determined on the acquisition date and changes thereafter reflected in revenue, not goodwill; changes the recognition timing for restructuring costs; and requires acquisition costs to be expensed as incurred. Adoption of SFAS 141(R) 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 is 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. SFAS 160 did not have a material effect on the Company's consolidated statement of financial condition.

In October 2008, the FASB issued FSP FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active" ("FSP 157-3"), which was effective upon issuance, including prior periods for which a statement of financial condition had not been issued. FSP 157-3 clarifies the application of 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 statement of 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 statement of 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 statement of financial condition.

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 the statement of financial condition is issued or is 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 statement of financial condition, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in the statement of financial condition, 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 Company's consolidated statement of financial condition.

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 statement of financial condition 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 QSPE concept from 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 statement of financial condition.

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 statement of financial condition.

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, AICPA, 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 statement of financial condition disclosures since all future references to authoritative accounting literature will be referenced in accordance with the Codification.

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 at June 30, 2009, were as follows:

(Amounts in thousands)	
Financial instruments and other inventory positions owned:	
Corporate securities:	
Equity securities	$ 1,994
Convertible securities	338
Fixed income securities	112,459
Municipal Securities	278, 579
Asset-backed securities	74,400
U.S. government agency securities	22,999
U.S. government securities	21,733
	$ 512,502
Financial instruments and other inventory positions sold, but not yet purchased:	
Corporate securities:	
Equity securities	$ 978
Convertible securities	284
Fixed income securities	17,052
Asset-backed securities	22,814
U.S. government agency securities	4
U.S. government securities	136,452
	$ 177,584

At June 30, 2009, financial instruments and other inventory positions owned in the amount of $129.6 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 derivatives, futures and exchange-traded options.

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 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, and convertible securities.

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.

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.

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

(Amounts in thousands)	Level I	Level II	Level III	Total
Assets:				
Financial instruments and other inventory positions owned:				
Corporate securities:				
Equity securities	$ 1,994	$ -	$ -	$ 1,994
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
Total financial instruments and other inventory positions owned:	8,518	436,024	67,960	512,502
Cash equivalents	2,242	-	-	2,242
Investments	1,733	-	85	1,818
Total assets	$ 12,493	$ 436,024	$ 68,045	$ 516,562
Liabilities:				
Financial instruments and other inventory positions sold, but not yet purchased:				
Corporate securities:				
Equity securities	$ 978	$ -	$ -	$ 978
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
Total financial instruments and other inventory positions sold, but not yet purchased:	51,841	124,178	1,565	177,584
Investments	-	-	19	19
Total liabilities	$ 51,841	$ 124,178	$ 1,584	$ 177,603

The Company's Level III assets were $68.0 million, or 13.2 percent of financial instruments measured at fair value at June 30, 2009.

NOTE 6. 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 investment vehicles.

The Company has investments in and/or acts as the managing partner or member to approximately 10 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 $6.3 million. The Company's remaining capital commitment to these partnerships and LLCs was $0.2 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.

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

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

(Amounts in thousands)	
Receivable arising from unsettled securities transactions, net	$ 2,454
Deposits paid for securities borrowed	48,942
Receivable from clearing organizations	8,855
Securities failed to deliver	9,538
Other	7,290
Total receivables	$ 77,079

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

(Amounts in thousands)	
Payable to clearing organizations	$ 93
Securities failed to receive	5,106
Other	2
Total payables	$ 5,201

NOTE 8. 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 valued at cost, net deferred tax assets, prepaid expenses and intercompany receivables.

Other assets at June 30, 2009 included:

(Amounts in thousands)	
Investments at fair value	$ 1,818
Investments at cost	14,905
Investments valued using equity method	8,120
Deferred income tax asset	76,601
Prepaid expenses	5,214
Intercompany receivable	30,112
Other	667
Total other assets	$ 137,437

NOTE 9. GOODWILL

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

(Amounts in thousands)	
Goodwill	
Balance at December 31, 2008	$ 111,051
Goodwill acquired	-
Impairment losses	-
Balance at June 30, 2009	$ 111,051

NOTE 10. 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 the Company to maintain a minimum net capital of $180 million, and the unpaid principal amount of all advances under this facility will be due on September 25, 2009. The Company 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, the weighted average interest rate on borrowings was 1.26 percent. At June 30, 2009, no formal compensating balance agreements existed, and the Company was in compliance with all debt covenants related to its financing facilities.

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. The Company's reserves totaled $15.1 million at June 30, 2009, which is included within other liabilities and accrued expenses on the consolidated statement of financial condition. A significant portion of the Company's reserves at June 30, 2009 will be funded by an insurance receivable, which is recorded within other receivables on the consolidated statement of financial condition.

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 statement of financial condition of the Company.

NOTE 12. STOCK-BASED COMPENSATION

The Parent Company maintains one stock-based compensation plan, the Incentive Plan. The plan permits the grant of equity awards, including non-qualified stock options and restricted stock, to the Company's 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 including the Financial Industry Regulatory Authority ("FINRA"), which serves as the Company's 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, 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.

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, 2009, receivable from affiliates of $30.1 million was included in other assets on the consolidated statement of financial condition, representing the amounts receivable for related party transactions.

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