When you choose an investment product, you should examine many factors, including your risk tolerance, investment objectives and time horizon. Mutual funds have an additional element for you to consider: different share “classes,” with different expense structures. The expense structure can affect your overall return, so Piper Jaffray would like you to understand these fee structures to help ensure you choose the mutual fund that is most suitable for you.

**Mutual fund pricing**

Class A shares

Class A shares typically charge a front-end sales charge (also called a “load”) on purchases but generally have lower fees (including 12b-1 fees*) and operating expenses than other share classes. Class A shares often offer you discounts known as breakpoints when you reach certain levels of cumulative investments. This means that when you reach certain asset levels within a fund family, the sales charge you pay is reduced.

* While you do not directly pay them, “12b-1 fees” are ongoing and are taken out of a mutual fund’s assets annually to cover marketing and distribution expenses. They can also be used to compensate a registered representative or other investment professional. 12b-1 fees can apply to all share classes.

Here are factors that may allow you to receive discounts; you should be sure to discuss them with your registered representative to see if you qualify for reduced sales charges.

- **Rights of accumulation (ROA):** ROAs allow you to combine a current fund purchase with previous transactions to reach a breakpoint. For example, if you invest $10,000 today and your previous transactions total $40,000, you may be able to combine those amounts to reach a $50,000 breakpoint and a lower sales charge on your current purchase.

- **Letters of intent (LOI):** LOIs express your intent to invest a certain dollar amount within a given period of time. All of your transactions during that time receive the sales charge based on the amount you committed to purchasing. However, if you do not meet the terms of the LOI, you would lose the discount and the fund company would retroactively adjust your sales charge.

- **Family discounts:** You and your immediate family members may be able to combine assets invested in the same mutual fund or in different funds offered by the same fund company in order to receive discounts.

- **Rights of reinstatement (ROR):** If you redeem shares in a mutual fund, RORs may allow you to reinvest or repurchase shares at net asset value within the same share class in a family of funds during a defined time period. Be sure to make your registered representative aware of any mutual funds you hold at other firms or directly with a fund company. You may be able to combine these with your Piper Jaffray holdings to reach breakpoint levels. Please contact your registered representative or refer to the fund’s prospectus for specific details on breakpoint qualifications.
**Class B shares**

Class B shares do not impose a front-end sales charge, but they impose higher ongoing fees and operating expenses than Class A shares. Also, they typically impose a contingent deferred sales charge (CDSC), which you pay if you sell your shares sooner than a stated number of years. The CDSC decreases annually until it is eventually eliminated, usually after six years (and it is also generally waived should the owner pass away within that period). In addition, Class B shares will often “convert” to Class A shares after a specified number of years, at which time they will begin to charge the same operating expenses as Class A shares. Because of the higher fees and expenses, Class B shares can be the most expensive share class if you sell shares during the CDSC period.

**Class C shares**

Many fund companies do not charge a front-end load on Class C shares, but some may, typically 1 percent of the investment. Class C shares charge a CDSC, although it is usually lower than that of a Class B share and spans a shorter time period (normally between 12 and 18 months). Fees and expenses are higher than those of Class A shares, and, unlike Class B shares, Class C shares typically do not convert to Class A shares over time.

**Tools You Can Use**

Mutual fund fee schedules can be complicated. The Financial Industry Regulatory Authority (FINRA) and the Securities Exchange Commission (SEC) have created online fee analyzers to help you. These tools allow you to change variables such as share class and time horizon to compare projected fees and expenses among share classes within one fund or compare fees and expenses of different funds.

The FINRA fee analyzer can be found at www.finra.org/fundanalyzer.

The SEC fee analyzer can be found at www.sec.gov/investor/tools/mfcc/mfcc-int.htm.

**How Piper Jaffray and your registered representative are compensated for mutual fund sales**

Each time you purchase a mutual fund through Piper Jaffray, the mutual fund family generally pays Piper Jaffray compensation. This compensation varies based on the product or fund selected, the amount of your investment and the share class purchased. For front-end load mutual fund share classes, we generally receive most of the initial sales charge that you pay. For back-end mutual fund share classes, we generally are paid a selling fee at a rate set by the mutual fund. Compensation for Piper Jaffray may also include mutual fund shareholder servicing payments (which are sometimes called trails). This compensation may be paid to us as long as you hold the mutual fund in your Piper Jaffray account. We pay a portion of the commission and “trails” to our registered representatives based upon our standard compensation formulas. The fund and the share class that you purchase will affect the compensation paid to your registered representative.

**Revenue sharing**

Like many other securities firms, we also receive payments, sometimes called “revenue sharing” payments, from some mutual funds and their affiliates. Our registered representatives do not receive extra compensation for selling products offered by a company that pays revenue sharing, and, as a client, you do not incur any additional sales charge when you purchase such products. Each Piper Jaffray registered representative evaluates individual funds based on your needs and will work with you to determine the
investments most appropriate for you. Revenue sharing payments made are not paid from mutual fund assets. Revenue sharing payments are generally paid based on sales volume and/or the amount of assets that Piper Jaffray clients hold in the funds.

Mutual fund companies with revenue sharing arrangements at Piper Jaffray

Certain mutual fund companies pay Piper Jaffray an amount based on an investor’s initial investment and on assets held in their funds.

Following is a list of the mutual fund companies that have made revenue sharing payments to Piper Jaffray during the twelve months ended December 31, 2010.

First American; Fidelity; AIM; Federated; Dreyfus; BlackRock

Other fees, reimbursements and compensation

We receive compensation from or on behalf of mutual funds for providing certain record keeping and related services to those funds. These fees may also be referred to as shareholder accounting fees, administrative services fees, sub-transfer agent fees or networking fees. The sub-transfer agent or networking fees are negotiated and payments are made based upon the number or aggregate value of client positions and the level of service provided. As of December 31, 2010, we may receive up to $10 per year per client position for those fund families on whose fund trades we maintain certain individual client and transaction information.

We may also receive contributions and reimbursements from mutual funds and their affiliates for expenses we incur in connection with registered representative training or client meetings that have an informational or educational component. Piper Jaffray and its registered representatives may receive nominal non-cash benefits from mutual funds or their affiliates. The foregoing payments and reimbursements may be considered branch marketing support and are not included in the data above.

We may also receive brokerage commissions on portfolio trades executed for mutual funds and their affiliates. We prohibit the use of such brokerage commissions to offset revenue sharing payments.

For additional information regarding particular fund payment and compensation practices, please refer to the mutual fund offering documents, including the prospectus and Statement of Additional Information (SAI), which are available by request from the appropriate fund company. If you have any questions regarding these practices, please speak with your registered representative.