PIPER JAFFRAY COMPANIES
Form 10-Q
November 09, 2007

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the Quarterly Period Ended September 30, 2007

OR

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

For the transition period from __________ to __________

Commission File No. 001-31720

PIPER JAFFRAY COMPANIES

(Exact name of registrant as specified in its charter)

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

(612) 303-6000

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer þ Accelerated Filer o Non-Accelerated Filer o

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

As of November 2, 2007, the registrant had 17,496,059 shares of Common Stock outstanding.

Piper Jaffray Companies
Index to Quarterly Report on Form 10-Q

Table of Contents

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

Piper Jaffray Companies
Consolidated Statements of Financial Condition

(Amounts in thousands, except share data)	**September 30, 2007** (Unaudited)	December 31, 2006
Assets		
Cash and cash equivalents	**$ 40,758**	$ 39,903
Cash and cash equivalents segregated for regulatory purposes	**20,000**	25,000
Receivables:		
Customers	**113,012**	51,441
Brokers, dealers and clearing organizations	**120,271**	312,874
Deposits with clearing organizations	**26,837**	30,223
Securities purchased under agreements to resell	**134,042**	139,927
Trading securities owned	**602,857**	776,684
Trading securities owned and pledged as collateral	**150,302**	89,842
Total trading securities owned	**753,159**	866,526
Fixed assets (net of accumulated depreciation and amortization of $54,283 and $48,603, respectively)	**27,442**	25,289
Goodwill	**264,938**	231,567
Intangible assets (net of accumulated amortization of $4,649 and $3,333, respectively)	**17,854**	1,467
Other receivables	**38,857**	39,347
Other assets	**99,886**	88,283
Total assets	**$ 1,657,056**	$ 1,851,847
Liabilities and Shareholders Equity		
Payables:		
Customers	**$ 69,755**	$ 83,899
Checks and drafts	**12,403**	13,828
Brokers, dealers and clearing organizations	**63,626**	210,955
Securities sold under agreements to repurchase	**155,184**	91,293
Trading securities sold, but not yet purchased	**261,478**	217,584
Accrued compensation	**91,357**	164,346
Other liabilities and accrued expenses	**114,093**	145,503
Total liabilities	**767,896**	927,408

Shareholders equity:		
Common stock, $0.01 par value:		
Shares authorized: 100,000,000 at September 30, 2007 and December 31, 2006;		
Shares issued: 19,487,319 at September 30, 2007 and December 31, 2006;		
Shares outstanding: 15,655,255 at September 30, 2007 and 16,984,474 at December 31, 2006	**195**	195
Additional paid-in capital	**729,739**	723,928
Retained earnings	**352,784**	325,684
Less common stock held in treasury at cost: 3,832,930 shares at September 30, 2007 and 2,502,845 shares at December 31, 2006	**(194,482)**	(126,026)
Other comprehensive income	**924**	658
Total shareholders equity	**889,160**	924,439
Total liabilities and shareholders equity	**$ 1,657,056**	$ 1,851,847

See Notes to Consolidated Financial Statements

3

Table of Contents

Piper Jaffray Companies
Consolidated Statements of Operations
(Unaudited)

(Amounts in thousands, except per share data)	**Three Months Ended September 30, 2007**	**Three Months Ended September 30, 2006**	**Nine Months Ended September 30, 2007**	**Nine Months Ended September 30, 2006**
Revenues:				
Investment banking	**$ 50,276**	$ 71,261	**$ 208,881**	$ 205,346
Institutional brokerage	**31,624**	36,618	**111,451**	119,436
Interest	**15,003**	16,663	**46,229**	44,869
Asset management	**903**	2	**1,102**	17
Other income	**735**	53	**1,523**	12,434
Total revenues	**98,541**	124,597	**369,186**	382,102
Interest expense	**5,647**	8,490	**16,766**	25,786
Net revenues	**92,894**	116,107	**352,420**	356,316
Non-interest expenses:				
Compensation and benefits	**54,343**	69,079	**206,166**	202,656
Occupancy and equipment	**7,201**	6,878	**23,772**	21,705
Communications	**6,040**	5,761	**18,296**	16,737
Floor brokerage and clearance	**3,564**	3,759	**11,255**	9,807
Marketing and business development	**6,064**	5,820	**18,125**	17,121
Outside services	**8,134**	6,344	**24,573**	19,472
Cash award program	**450**	512	**1,196**	2,673
Other operating expenses	**1,064**	2,905	**5,268**	10,252
Total non-interest expenses	**86,860**	101,058	**308,651**	300,423
Income from continuing operations before income tax expense	**6,034**	15,049	**43,769**	55,893
Income tax expense	**1,222**	5,521	**13,858**	19,730
Net income from continuing operations	**4,812**	9,528	**29,911**	36,163
Discontinued operations:				
Income/(loss) from discontinued operations, net of tax	**(456)**	177,085	**(2,811)**	178,444

Net income	**$ 4,356**	$ 186,613	**$ 27,100**	$ 214,607
Earnings per basic common share				
Income from continuing operations	**$ 0.30**	$ 0.53	**$ 1.79**	$ 1.97
Income/(loss) from discontinued operations	**(0.03)**	9.82	**(0.17)**	9.73
Earnings per basic common share	**$ 0.27**	$ 10.35	**$ 1.62**	$ 11.70
Earnings per diluted common share				
Income from continuing operations	**$ 0.28**	$ 0.50	**$ 1.70**	$ 1.87
Income/(loss) from discontinued operations	**(0.03)**	9.29	**(0.16)**	9.25
Earnings per diluted common share	**$ 0.26**	$ 9.79	**$ 1.54**	$ 11.12
Weighted average number of common shares outstanding				
Basic	**16,096**	18,031	**16,743**	18,348
Diluted	**16,904**	19,071	**17,610**	19,294

See Notes to Consolidated Financial Statements

Table of Contents

Piper Jaffray Companies
Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30,	
(Dollars in thousands)	**2007**	2006
Operating Activities:		
Net income	**$ 27,100**	$ 214,607
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	**6,660**	10,512
Gain on sale of PCS branch network		(327,749)
Deferred income taxes	**3,822**	(11,598)
Loss on disposal of fixed assets	**304**	
Stock-based compensation	**19,791**	21,433
Amortization of intangible assets	**1,316**	1,200
Decrease (increase) in operating assets:		
Cash and cash equivalents segregated for regulatory purposes	**5,000**	(35,000)
Receivables:		
Customers	**(61,516)**	33,058
Brokers, dealers and clearing organizations	**192,541**	(141,257)
Deposits with clearing organizations	**3,386**	24,701
Securities purchased under agreements to resell	**5,885**	44,952
Net trading securities owned	**157,503**	(113,311)
Other receivables	**3,451**	(5,099)
Other assets	**(15,337)**	(11,859)
Increase (decrease) in operating liabilities:		
Payables:		
Customers	**(14,200)**	(18,900)
Checks and drafts	**(1,446)**	(38,524)
Brokers, dealers and clearing organizations	**(147,317)**	275,066
Securities sold under agreements to repurchase	**71,539**	(13,527)
Accrued compensation	**(74,409)**	(41,662)
Other liabilities and accrued expenses	**(31,849)**	166,832
Net cash provided by operating activities	**152,224**	33,875
Investing Activities:		
Sale of PCS branch network		701,861
Business acquisition, net of cash acquired	**(52,681)**	
Purchases of fixed assets, net	**(8,280)**	(6,456)
Net cash provided by (used in) investing activities	**(60,961)**	695,405

Financing Activities:

Decrease in securities loaned		(234,676)
Decrease in securities sold under agreements to repurchase	**(7,648)**	(228,699)
Increase in short-term bank financing		50,000
Repayment of subordinated debt		(180,000)
Repurchase of common stock	**(87,489)**	(100,000)
Excess tax benefits from stock-based compensation	**2,072**	
Proceeds from stock option transactions	**2,383**	
Net cash used in financing activities	**(90,682)**	(693,375)
Currency adjustment:		
Effect of exchange rate changes on cash	**274**	982
Net increase in cash and cash equivalents	**855**	36,887
Cash and cash equivalents at beginning of period	**39,903**	60,869
Cash and cash equivalents at end of period	**$ 40,758**	$ 97,756
Supplemental disclosure of cash flow information - Cash paid during the period for:		
Interest	**$ 17,058**	$ 35,137
Income taxes	**$ 4,115**	$ 36,981
Non-cash financing activities -		
Issuance of common stock for retirement plan obligations:		
8,619 shares and 190,966 shares for the nine months ended September 30, 2007 and 2006 respectively	**$ 598**	$ 9,013

See Notes to Consolidated Financial Statements

5

Table of Contents

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

Note 1 *Background*

Piper Jaffray Companies is the parent company of Piper Jaffray & Co. (Piper Jaffray), a securities broker dealer and investment banking firm; Piper Jaffray Ltd., a firm providing securities brokerage and investment banking services in Europe headquartered in London, England; Piper Jaffray Financial Products Inc., an entity that facilitates customer derivative transactions; Piper Jaffray Financial Products II Inc., an entity dealing primarily in variable rate municipal products; Fiduciary Asset Management, LLC (FAMCO), an entity providing asset management services to clients through separately managed accounts and closed end funds; and other immaterial subsidiaries. Piper Jaffray Companies and its subsidiaries (collectively, the Company) operate as one reporting segment providing investment banking services, institutional sales, trading and research services, and asset management services. As discussed more fully in Note 4, the Company completed the sale of its Private Client Services branch network and certain related assets to UBS Financial Services, Inc., a subsidiary of UBS AG (UBS), on August 11, 2006, thereby exiting the Private Client Services (PCS) business.

Basis of Presentation

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

The consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (SEC) with respect to Form 10-Q and reflect all adjustments that in the opinion of management are normal and recurring and that are necessary for a fair statement of the results for the interim periods presented. In accordance with these rules and regulations, certain disclosures that are normally included in annual financial statements have been omitted. The consolidated financial statements included in this Form 10-Q should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2006.

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

Note 2 *Summary of Significant Accounting Policies*

Refer to the Company s Annual Report on Form 10-K for the year ended December 31, 2006, for a full description of the Company s significant accounting policies. Changes to the Company s significant accounting policies are described below.

Revenue Recognition

Asset management asset management fees, which are derived from providing contract investment advisory services, are recognized in the period in which services are provided. Fees are defined in client contracts as either fixed or based on a percentage of portfolio assets under management.

Note 3 *Recent Accounting Pronouncements*

In February 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 155, Accounting for Certain Hybrid Financial Instruments, (SFAS 155), which amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, (SFAS 133), and SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (SFAS 140). The provisions of SFAS 155 provide a fair value measurement option for certain hybrid financial instruments that contain an embedded derivative that would otherwise require bifurcation. SFAS 155 also provides clarification that only the simplest separations of interest payments and principal payments qualify for the exception afforded to interest-only strips and principal-only strips from derivative accounting under paragraph 14 of SFAS 133. The standard also clarifies that concentration of credit risk in the form of subordination is not an embedded derivative. Lastly, the new standard amends SFAS 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS 155 was effective for the Company for all financial instruments acquired or issued beginning January 1, 2007. The adoption of SFAS 155 did not have a material effect on the consolidated financial statements of the Company.

Table of Contents

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a two-step process to recognize and measure a tax position taken or expected to be taken in a tax return. The first step is recognition, whereby a determination is made whether it is more-likely-than-not that a tax position will be sustained upon examination based on the technical merits of the position. The second step is to measure a tax position that meets the recognition threshold to determine the amount of benefit to recognize. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 was effective for fiscal years beginning after December 15, 2006. The adoption of FIN 48 did not have a material effect on the consolidated financial statements of the Company.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements, but its application may, for some entities, change current practice. Changes to current practice stem from the revised definition of fair value and the application of this definition within the framework established by SFAS 157. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of SFAS 157 on the Company s consolidated results of operations and financial condition.

In February 2007, the FASB issued 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. If elected, SFAS 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007, with earlier adoption permitted provided that the entity also early adopts all of the requirements of SFAS 157. The Company is currently evaluating the impact of SFAS 159 on the Company s consolidated results of operations and financial condition.

In April 2007, the FASB issued 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. FSP FIN 39-1 is effective for fiscal years beginning after November 15, 2007, with early adoption permitted. FSP FIN 39-1 is not expected to have a material affect on our consolidated financial statements.

Note 4 *Discontinued Operations*

On August 11, 2006, the Company and UBS completed the sale of the Company s PCS branch network under a previously announced asset purchase agreement. The purchase price under the asset purchase agreement was approximately $750 million, which included $500 million for the branch network and approximately $250 million for the net assets of the branch network, consisting principally of customer margin receivables.

In accordance with the provisions of Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144), the results of PCS operations have been classified as discontinued operations for all periods presented. The Company recorded a loss from discontinued operations, net of tax, of $0.5 million and $2.8 million for the three months and nine months ended September 30, 2007, respectively, related to the cost of decommissioning a PCS-oriented back office system, litigation-related expenses and restructuring charges. The decommissioning of the PCS-oriented back office system was completed in the third quarter, and the Company does not expect to incur any additional costs related to this system. The Company may incur discontinued operations expense or income related to changes in litigation reserve estimates for retained PCS litigation matters and for changes in estimates to occupancy and severance restructuring charges if the facts that support the Company s estimates change.

In connection with the sale of the Company s PCS branch network, the Company initiated a plan in 2006 to significantly restructure the Company s support infrastructure. All restructuring costs related to the sale of the PCS branch network are included within discontinued operations in accordance with SFAS 144. See Note 13 for additional information regarding the Company s restructuring activities.

Table of Contents

Note 5 *Acquisition of Fiduciary Asset Management, LLC*

On September 14, 2007, the Company acquired FAMCO, a St. Louis-based asset management firm, which significantly expands the Company s asset management capabilities. At the time of closing, the Company recorded $33.4 million in goodwill, $17.7 million in identifiable intangible assets and $1.7 million in net assets in connection with this acquisition. The Company may make an additional cash payment for FAMCO of up to $15.1 million contingent on net new assets under management secured through December 15, 2007. In addition, the acquisition of FAMCO includes the potential for additional cash consideration to be paid in the form of three annual payments contingent upon revenue exceeding certain revenue run-rate thresholds. The amount of the three annual payments (assuming the revenue run-rate threshold has been met) will be equal to a percentage of earnings before income taxes, depreciation and amortization for the previous year. The percentage in 2008 is 120% and 110% in 2009 and 2010. An allocation of the purchase price, not including any additional cash payments described above, to assets acquired and liabilities assumed has been recorded as of September 30, 2007. For more information regarding the Company s acquisition of FAMCO, please refer to the Company s Form 8-K, filed with the SEC on September 14, 2007.

Note 6 *Derivatives*

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 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. In addition, the Company enters into total return loan swap agreements to receive the total return on $36.4 million in certain loan assets without transferring actual ownership of the underlying loan to the Company. As of September 30, 2007 and December 31, 2006, the Company was counterparty to notional/contract amounts of $7.2 billion and $5.8 billion, respectively, of derivative instruments.

The market or fair values related to derivative contract transactions are reported in trading securities owned and trading securities sold, but not yet purchased on the consolidated statements of financial condition. 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 under a legally enforceable master netting agreement in accordance with FASB Interpretation No. 39, Offsetting of Amounts Related to Certain Contracts.

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. The net fair value of derivative contracts was approximately $24.9 million and $19.7 million as of September 30, 2007 and December 31, 2006, respectively.

Note 7 *Securitizations*

In connection with its tender option bond program, the Company securitizes highly rated municipal bonds. At September 30, 2007 and December 31, 2006, the Company had $315.6 million and $279.2 million, respectively, of par value of municipal bonds in securitization. Each 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 other income on the consolidated statements of operations. If a securitization does not meet the sale-of-asset requirements of SFAS 140, the transaction is recorded as a borrowing. The Company retains a residual interest in each structure and accounts for the residual interest as a trading security, which is recorded at fair value on the consolidated statements of financial condition. The fair value of retained interests was

$8.9 million and $8.1 million at September 30, 2007 and December 31, 2006, respectively, with a weighted average life of 8.2 years and 8.4 years, respectively. The fair value of retained interests is estimated based on the present value of future cash flows using management s best estimates of the key assumptions expected yield, credit losses of 0 percent and a 12 percent discount rate. At September 30, 2007, the sensitivity of the current fair value of retained interests to immediate 10 percent and 20 percent adverse changes in the key economic assumptions was not material. The Company receives a fee to remarket the variable rate certificates derived from the securitizations.

Table of Contents

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

	Nine Months Ended September 30,	
(Dollars in thousands)	**2007**	2006
Proceeds from new securitizations	**$48,471**	$7,578
Remarketing fees received	**95**	106
Cash flows received on retained interests	**4,569**	5,525

Three securitization transactions were designed such that they did not meet the asset sale requirements of SFAS 140, causing the Company to consolidate these trusts. Accordingly, the Company recorded an asset for the underlying bonds of $49.6 million and $51.2 million as of September 30, 2007 and December 31, 2006, respectively, in trading securities owned and a liability for the certificates sold by the trust for $48.6 million and $50.1 million as of September 30, 2007 and December 31, 2006, respectively, in other liabilities and accrued expenses on the consolidated statements of financial condition.

The Company enters into interest rate swap agreements to manage interest rate exposure associated with holding the residual interest securities from its securitizations, which have been recorded at fair value and resulted in a liability of approximately $5.8 million and $5.7 million at September 30, 2007 and December 31, 2006, respectively.

The Company has contracted with a major third-party financial institution to act as the liquidity provider for the Company s tender option bond securitized trusts. The Company has agreed to reimburse this party for any losses associated with providing liquidity to the trusts. The maximum exposure to loss at September 30, 2007 was $288.7 million, representing the outstanding amount of all trust certificates at those dates. This exposure to loss is mitigated by the underlying bonds in the trusts, which are either AAA or AA rated. These bonds had a market value of approximately $300.3 million at September 30, 2007. The Company believes the likelihood it will be required to fund the reimbursement agreement obligation under any provision of the arrangement is remote, and accordingly, no liability for such a guarantee has been recorded in the accompanying consolidated financial statements.

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

Amounts receivable from brokers, dealers and clearing organizations at September 30, 2007 and December 31, 2006 included:

(Dollars in thousands)	**September 30, 2007**	December 31, 2006
Receivable arising from unsettled securities transactions, net	**$**	$ 18,233
Deposits paid for securities borrowed	**64,163**	271,028
Receivable from clearing organizations	**18,311**	6,811
Securities failed to deliver	**27,304**	1,674
Other	**10,493**	15,128
	$ 120,271	$ 312,874

Amounts payable to brokers, dealers and clearing organizations at September 30, 2007 and December 31, 2006 included:

(Dollars in thousands)	**September 30, 2007**	December 31, 2006
Payable arising from unsettled securities transactions, net	**$ 35,003**	$
Deposits received for securities loaned		189,214
Payable to clearing organizations	**23,199**	17,140

Securities failed to receive	**5,246**	4,531
Other	**178**	70
	$ 63,626	$ 210,955

Deposits paid for securities borrowed and deposits received for securities loaned declined significantly from December 31, 2006 as the Company discontinued its stock loan conduit business in the first quarter of 2007.

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

Table of Contents

Note 9 *Trading Securities Owned and Trading Securities Sold, but Not Yet Purchased*

Trading securities owned and trading securities sold, but not yet purchased were as follows:

(Dollars in thousands)	**September 30, 2007**	December 31, 2006
Owned:		
Corporate securities:		
Equity securities	**$ 27,532**	$ 14,163
Convertible securities	**98,946**	59,118
Fixed income securities	**105,098**	235,120
Asset-backed securities	**151,900**	158,108
U.S. government securities	**26,328**	10,715
Municipal securities	**304,295**	364,160
Other	**39,060**	25,142
	$ 753,159	$ 866,526
Sold, but not yet purchased:		
Corporate securities:		
Equity securities	**$ 70,096**	$ 31,452
Convertible securities	**3,314**	2,543
Fixed income securities	**31,498**	16,378
Asset-backed securities	**86,485**	51,001
U.S. government securities	**62,783**	109,719
Municipal securities	**201**	5
Other	**7,101**	6,486
	$ 261,478	$ 217,584

At September 30, 2007 and December 31, 2006, trading securities owned in the amount of $150.3 million and $89.8 million, respectively, had been pledged as collateral for the Company s repurchase agreements, secured borrowings and securities loaned activities.

Trading securities sold, but not yet purchased represent obligations of the Company to deliver the specified security at the contracted price, thereby creating a liability to purchase the security in the market at prevailing prices. The Company is obligated to acquire the securities sold short at prevailing market prices, which may exceed the amount reflected on the consolidated statements of financial condition. The Company economically hedges changes in market value of its trading securities owned utilizing trading securities sold, but not yet purchased, interest rate swaps, futures and exchange-traded options.

Note 10 *Goodwill and Intangible Assets*

The following table presents the changes in the carrying value of goodwill and intangible assets for the nine months ended September 30, 2007:

(Dollars in thousands)	
Goodwill	
Balance at December 31, 2006	**$ 231,567**
Goodwill acquired	33,371
Impairment losses	

Balance at September 30, 2007	**$ 264,938**

(Dollars in thousands)	
Intangible assets	
Balance at December 31, 2006	**$ 1,467**
Intangible assets acquired	17,703
Amortization of intangible assets	(1,316)
Impairment losses	
Balance at September 30, 2007	**$ 17,854**

The addition of goodwill and intangible assets during 2007 were based on the purchase price allocation of FAMCO, which the Company acquired on September 14, 2007, as discussed in Note 5. Management identified $17.7 million of intangible assets, consisting principally of asset management contracts, that will be amortized over a weighted average life of 8.8 years.

Table of Contents

The following table illustrates the aggregate future amortization of the Company s intangible assets:

(Dollars in thousands)

Note 11 *Financing*

The Company had uncommitted credit agreements with banks totaling $677 million at September 30, 2007, comprised of $557 million in discretionary secured lines under which no amount was outstanding at September 30, 2007 and December 31, 2006, and $120 million in discretionary unsecured lines under which no amount was outstanding at September 30, 2007 and December 31, 2006. 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 September 30, 2007 and December 31, 2006, the weighted average interest rate on borrowings was 5.70 percent and 5.72 percent, respectively. At September 30, 2007 and December 31, 2006, no formal compensating balance agreements existed, and the Company was in compliance with all debt covenants related to these facilities.

Note 12 *Legal Contingencies*

The Company has been named as a defendant in various legal proceedings arising primarily from securities brokerage and investment banking activities, including certain class actions that primarily allege violations of securities laws and seek unspecified damages, which could be substantial. Also, the Company is involved from time to time in investigations and proceedings by governmental agencies and self-regulatory organizations.

The Company has established reserves for potential losses that are probable and reasonably estimable that may result from pending and potential complaints, legal actions, investigations and proceedings. 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 $13.2 million of this amount remained available as of September 30, 2007.

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. Adjustment to litigation reserves for matters pertaining to the PCS business are included within discontinued operations on the consolidated statements of operations.

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

Note 13 *Restructuring*

The Company implemented a specific restructuring plan in 2006 to reorganize the Company s support infrastructure as a result of the PCS branch network sale to UBS.

Table of Contents

The restructuring charges included the cost of severance, benefits, outplacement costs and equity award accelerated vesting costs associated with the termination of employees. The severance amounts were determined based on a one-time severance benefit enhancement to the Company s existing severance pay program in place at the time of termination notification and will be paid out over a benefit period of up to one year from the time of termination. Approximately 295 employees received a severance package. In addition, the Company incurred restructuring charges for contract termination costs related to the reduction of office space and the modification of technology contracts. Contract termination fees are determined based on the provisions of Statement of Financial Accounting Standards No. 146, Accounting for Costs Associated with Exit or Disposal Activities, which requires the recognition of a liability for contract termination under a cease-use date concept. The Company also incurred restructuring charges for the impairment or disposal of long-lived assets determined in accordance with SFAS 144. All restructuring costs related to the sale of the PCS branch network are included within discontinued operations in accordance with SFAS 144.

For the nine months ended September 30, 2007, the Company incurred $0.4 million of expense to revise contract termination cost estimates.

The following table presents a summary of activity with respect to the restructuring-related liabilities included in other liabilities and accrued expenses on the statements of financial condition:

(Dollars in thousands)	PCS Restructuring
Balance at December 31, 2006	**$ 28,583**
Provisions charged to discontinued operations	382
Cash outlays	(13,117)
Non-cash write-downs	(398)
Balance at September 30, 2007	**$ 15,450**

Note 14 *Shareholders Equity*

Share Repurchase Program

In the third quarter of 2006, the Company s board of directors authorized the repurchase of up to $180.0 million in common shares through December 31, 2007. The Company executed an accelerated stock repurchase under this authorization in the amount of $100 million during 2006. During the nine months ended September 30, 2007, the Company repurchased 1,590,477 shares of the Company s common stock at an average price of $50.28 per share for an aggregate purchase price of $80.0 million. This repurchase activity completed the $180.0 million share repurchase authorization.

Issuance of Shares

During the nine months ended September 30, 2007, the Company reissued 8,619 common shares out of treasury in fulfillment of $0.6 million in obligations under the Piper Jaffray Companies Retirement Plan and reissued 255,410 common shares out of treasury as a result of vesting and exercise transactions under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan (the Long-Term Incentive Plan).

Note 15 *Earnings Per Share*

Basic earnings per common share is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per common share is calculated by adjusting the weighted average outstanding shares to assume conversion of all potentially dilutive restricted stock and stock options. The computation of earnings per share is as follows:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
(Amounts in thousands, except per share data)	**2007**	2006	**2007**	2006

Net income	**$ 4,356**	$186,613	**$27,100**	$214,607
Shares for basic and diluted calculations:				
Average shares used in basic computation	**16,096**	18,031	**16,743**	18,348
Restricted stock	**722**	949	**755**	869
Stock options	**86**	91	**112**	77
Average shares used in diluted computation	**16,904**	19,071	**17,610**	19,294
Earnings per share:				
Basic	**$ 0.27**	$ 10.35	**$ 1.62**	$ 11.70
Diluted	**$ 0.26**	$ 9.79	**$ 1.54**	$ 11.12

12

Table of Contents

Note 16 *Stock-Based Compensation and Cash Award Program*

The Company maintains one stock-based compensation plan, the 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 and directors for up to 4.5 million shares of common stock. The Company periodically grants shares of restricted stock and options to purchase Piper Jaffray Companies common stock to employees and grants options to purchase Piper Jaffray Companies common stock or shares of Piper Jaffray Companies common stock to its non-employee directors. The Company believes that such awards help align the interests of employees and directors with those of shareholders and serve as an employee retention tool. The awards granted to employees have three-year cliff vesting periods. The director awards are fully vested upon grant. The maximum term of the stock options granted to employees and directors is ten years. The plan provides for accelerated vesting of option and restricted stock awards if there is a change in control of the Company (as defined in the plan), in the event of a participant s death, and at the discretion of the compensation committee of the Company s board of directors.

Prior to January 1, 2006, the Company accounted for stock-based compensation under the fair value method of accounting as prescribed by SFAS 123, as amended by SFAS 148. As such, the Company recorded stock-based compensation expense in the consolidated statements of operations at fair value, net of estimated forfeitures.

Effective January 1, 2006, the Company adopted the provisions of SFAS 123(R) using the modified prospective transition method. SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the statement of operations based on fair value, net of estimated forfeitures. Because the Company historically expensed all equity awards based on the fair value method, net of estimated forfeitures, SFAS 123(R) did not have a material effect on the Company s measurement or recognition methods for stock-based compensation.

Employee and director stock options granted prior to January 1, 2006, were expensed by the Company on a straight-line basis over the option vesting period, based on the estimated fair value of the award on the date of grant using a Black-Scholes option-pricing model. Employee and director stock options granted after January 1, 2006, are expensed by the Company on a straight-line basis over the required service period, based on the estimated fair value of the award on the date of grant using a Black-Scholes option-pricing model. At the time it adopted SFAS 123(R), the Company changed the expensing period from the vesting period to the required service period, which shortened the period over which options are expensed for employees who are retiree-eligible on the date of grant or become retiree-eligible during the vesting period. The number of employees that fell within this category at January 1, 2006 was not material. In accordance with SEC guidelines, the Company did not alter the expense recorded in connection with prior option grants for the change in the expensing period.

Employee restricted stock grants prior to January 1, 2006, are amortized on a straight-line basis over the vesting period based on the market price of Piper Jaffray Companies common stock on the date of grant. Restricted stock grants after January 1, 2006, are valued at the market price of the Company s common stock on the date of grant and amortized on a straight-line basis over the required service period. The majority of the Company s restricted stock grants provide for continued vesting after termination, so long as the employee does not violate certain post-termination restrictions, as set forth in the award agreements or any agreements entered into upon termination. The Company considers the required service period to be the greater of the vesting period or the post-termination restricted period. The Company believes that the post-termination restrictions meet the SFAS 123(R) definition of a substantive service requirement.

The Company recorded compensation expense, net of estimated forfeitures, within continuing operations of $7.3 million and $5.4 million for the three months ended September 30, 2007 and 2006, respectively, and $19.7 million and $15.6 million for the nine months ended September 30, 2007 and 2006, respectively, related to employee stock option and restricted stock grants. The tax benefit related to the total compensation cost for stock-based compensation arrangements totaled $2.8 million and $2.1 million for the three months ended September 30, 2007 and 2006, respectively and $7.5 million and $6.0 million for the nine months ended September 30, 2007 and 2006, respectively.

The fair value of each stock option is estimated on the date of grant using the Black-Scholes option-pricing model, which is based on assumptions such as the risk-free interest rate, the dividend yield, the expected volatility and the expected life of the option. The risk-free interest rate assumption is derived from the U.S. treasury bill rate with a maturity equal to the expected life of the option. The dividend yield assumption is derived from the assumed dividend payout over the expected life of the option. The expected volatility assumption for 2007 grants is derived from a combination of Company historical data and industry comparisons. The Company has only been a publicly traded company for approximately 45 months; therefore, it does not have sufficient historical data to determine an appropriate expected volatility solely from the Company s own historical data. The expected life assumption is based on an average of the following two factors: 1) industry comparisons; and 2) the guidance provided by the SEC in Staff Accounting Bulletin No. 107, (SAB 107). SAB 107 allows the use of an acceptable methodology under which the Company can take the midpoint of the vesting date and the full contractual term. The following table provides a summary of the valuation assumptions used by the Company to determine the estimated value of stock option grants in Piper Jaffray Companies common stock for the nine months ended September 30, 2007:

Table of Contents

	2007	2006
Weighted average assumptions in option valuation:		
Risk-free interest rates	**4.68%**	4.55%
Dividend yield	**0.00%**	0.00%
Stock volatility factor	**32.20%**	40.08%
Expected life of options (in years)	**6.00**	6.00
Weighted average fair value of options granted	**$28.57**	$22.14

The following table summarizes the changes in the Company s outstanding stock options for the nine months ended September 30, 2007:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
December 31, 2006	510,181	$ 43.25	7.8	$11,172,964
Granted	35,641	70.13		
Exercised	(50,759)	46.92		
Canceled	(20,989)	40.89		
September 30, 2007	474,074	$ 44.98	7.3	$ 4,086,518
Options exercisable at September 30, 2007	183,497	$ 46.33	6.7	$ 1,334,023

As of September 30, 2007, there was $1.5 million of total unrecognized compensation cost related to stock options expected to be recognized over a weighted average period of 1.6 years.

Cash received from option exercises for the nine months ended September 30, 2007 was $2.4 million. The tax benefit realized for the tax deduction from option exercises totaled $0.9 million for the nine months ended September 30, 2007. There were no option exercis es for the nine months ended September 30, 2006.

The following table summarizes the changes in the Company s non-vested restricted stock for the nine months ended September 30, 2007:

	Non-Vested Restricted Stock	Weighted Average Grant Date Fair Value
December 31, 2006	1,556,801	$ 43.81
Granted	654,885	68.51
Vested	(314,905)	48.70
Canceled	(166,186)	49.40
September 30, 2007	1,730,595	$ 51.73

As of September 30, 2007, there was $48.8 million of total unrecognized compensation cost related to restricted stock expected to be recognized over a weighted average period of 2.0 years.

In connection with the Company s spin-off from U.S. Bancorp on December 31, 2003, the Company established a cash award program pursuant to which it granted cash awards to a broad-based group of employees to aid in retention of employees and to compensate employees for the value of U.S. Bancorp stock options and restricted stock lost by employees. The cash awards are being expensed over a four-year period ending December 31, 2007. Participants must be employed on the date of payment to receive payment under the award. Expense related to the cash award program is included as a separate line item on the Company s consolidated statements of operations.

Note 17 *Geographic Areas*

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	**2007**	2006	**2007**	2006
Revenues:				
Domestic operations	**$ 89,749**	$ 106,615	**$ 312,247**	$ 330,995
International operations	**3,145**	9,492	**40,173**	25,321
Consolidated	**$ 92,894**	$ 116,107	**$ 352,420**	$ 356,316

(Dollars in thousands)	**September 30, 2007**	December 31, 2006
Long-lived assets:		
Domestic operations	**$ 24,724**	$ 22,503
International operations	**2,718**	2,786
Consolidated	**$ 27,442**	$ 25,289

Note 18 *Net Capital Requirements and Other Regulatory Matters*

As a registered broker dealer and member firm of the Financial Industry Regulatory Authority (FINRA), Piper Jaffray is subject to the uniform net capital rule of the SEC and the net capital rule of the New York Stock Exchange (NYSE). Piper Jaffray has elected to use the alternative method permitted by the SEC rule, which requires that it maintain minimum net capital of the greater of $1.0 million or 2 percent of aggregate debit balances arising from customer transactions, as such term is defined in the SEC rule. Under the NYSE rule, the NYSE may prohibit a member firm from expanding its business or paying dividends if resulting net capital would be less than 5 percent of aggregate debit balances. Advances to affiliates, repayment of subordinated debt, dividend payments and other equity withdrawals by Piper Jaffray are subject to certain notification and other provisions of the SEC and NYSE rules. In addition, Piper Jaffray is subject to certain notification requirements related to withdrawals of excess net capital.

At September 30, 2007, net capital calculated under the SEC rule was $240.8 million, and exceeded the minimum net capital required under the SEC rule by $238.4 million.

Piper Jaffray Ltd., which is a registered United Kingdom broker dealer, is subject to the capital requirements of the Financial Services Authority (FSA). As of September 30, 2007, Piper Jaffray Ltd. was in compliance with the capital requirements of the FSA.

Note 19 *Income Taxes*

The Company adopted the provisions of FIN 48 on January 1, 2007. Implementation of FIN 48 resulted in no adjustment to the Company s liability for unrecognized tax benefits. As of the date of adoption the total amount of unrecognized tax benefits was $1.1 million, all of which relates to tax benefits that if recognized, would impact the annual effective tax rate. Included in the total liability for unrecognized tax benefits is $0.2 million of interest and penalties, both of which the Company recognizes as a component of income tax expense. The Company or one of its subsidiaries file income tax returns with the U.S. federal jurisdiction, all states, and various foreign jurisdictions. The Company is not subject to U.S. federal, state and local or non-U.S. income tax examination by tax authorities for taxable years before 2004.

There was no change in the unrecognized tax benefit during the nine month period ended September 30, 2007.

Note 20 *Acquisition of Goldbond Capital Holdings Limited*

On October 2, 2007, the Company acquired Goldbond Capital Holdings Limited (Goldbond), a Hong Kong-based investment bank which provides the Company with capital markets capabilities in Hong Kong. As consideration for the transaction, the Company paid $47.1 million in cash and $4.1 million in the form of restricted stock of the

Company. An allocation of the purchase price will be recorded in the fourth quarter of 2007. For more information regarding the Company s acquisition of Goldbond, please refer to the Company s Form 8-K, filed with the SEC on July 3, 2007.

Table of Contents

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

The following information should be read in conjunction with the accompanying consolidated financial statements and related notes and exhibits included elsewhere in this report. Certain statements in this report may be considered forward-looking. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements. These forward looking statements include, among other things, statements other than historical information or statements of current condition and may relate to our future plans and objectives and results, and also may include our belief regarding the effect of various legal proceedings, as set forth under Legal Proceedings in Part I, Item 3 of our Annual Report on Form 10-K for the year ended December 31, 2006, as updated in our subsequent reports filed with the SEC. Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ materially from those anticipated, including those factors discussed below under External Factors Impacting Our Business as well as the factors identified under Risk Factors in Part 1, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2006, as updated in our subsequent reports filed with the SEC. These reports are available at our Web site at www.piperjaffray.com and at the SEC Web site at www.sec.gov. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update them in light of new information or future events.

Executive Overview

Our continuing operations are principally engaged in providing investment banking, institutional brokerage, asset management and related financial services to middle-market companies, private equity groups, public entities, non-profit entities and institutional investors in the United States, Europe and Asia. Our revenues are generated primarily through the receipt of advisory and financing fees earned on investment banking activities, commissions and sales credits earned on equity and fixed income institutional sales and trading activities, net interest earned on securities inventories, profits and losses from trading activities related to these securities inventories and asset management fees.

The securities business is a human capital business; accordingly, compensation and benefits comprise the largest component of our expenses, and our performance is dependent upon our ability to attract, develop and retain highly skilled employees who are motivated and committed to providing the highest quality of service and guidance to our clients.

Discontinued operations include the operating results of our Private Client Services (PCS) retail brokerage business and related restructuring costs. We closed on the sale of our PCS branch network and certain related assets to UBS Financial Services, Inc., a subsidiary of UBS AG (UBS), on August 11, 2006. Our PCS retail brokerage business provided financial advice and a wide range of financial products and services to individual investors through a network of approximately 90 branch offices. In the third quarter of 2007, discontinued operations recorded a net loss of $0.5 million, which included costs related to decommissioning a retail-oriented back-office system, costs for PCS litigation-related expenses and additional restructuring charges. The decommissioning of our retail-oriented back-office system was completed in the third quarter and we do not anticipate incurring any additional expenses related to this system in the future. Costs associated with implementing a new back-office system to support our capital markets business are recorded in continuing operations. We may incur additional discontinued operations expenses or income in the future related to changes in litigation reserve estimates for retained PCS litigation matters and for changes in estimates to occupancy and severance restructuring charges if the facts that support our estimates change. See Notes 4 and 13 to our unaudited consolidated financial statements for a further discussion of our discontinued operations and restructuring.

On September 14, 2007, we completed the acquisition of Fiduciary Asset Management, LLC (FAMCO) a St. Louis-based asset management firm that serves clients through separately managed accounts and closed end funds, and offers investment products that include traditional core equity, quantitative and hedged equity, master limited partnerships and fixed income. This acquisition significantly expands our asset management capabilities and helps to diversify our revenue base. FAMCO results of operations are included in our consolidated results of operations from the date of acquisition. At the time of closing, we paid $51.3 million in cash and may make an additional cash payment of up to $15.1 million contingent on new assets under management secured through December 15, 2007. In addition, we may pay future cash consideration contingent on the performance of FAMCO in each of the 2008, 2009 and 2010 calendar years.

On October 2, 2007, we completed the acquisition of Goldbond Capital Holdings Limited (Goldbond), a Hong Kong investment bank, for $47.1 million in cash and $4.1 million in restricted stock. Goldbond focuses primarily on raising capital for and providing financial advisory services to companies listed or to be listed on the Hong Kong Stock Exchange. Our Asia platform now includes corporate finance, sales and trading, equity capital markets and research and will be referred to as Piper Jaffray Asia going forward.

We plan to continue our focus on revenue growth through expansion of our capital markets and asset management businesses. Within our capital markets business, our efforts will be focused on growing our sector expertise, product depth and geographic reach. We expect that continued growth of both our capital markets and asset management businesses will come from a combination of organic growth and acquisitions. In addition, we have begun to use our own capital to a greater extent by engaging in principal activities that leverage our expertise. These activities include, among other things, proprietary positions in equity and debt securities of public and private companies, arbitrage trading strategies and private equity funds. We intend to increase the amount of capital we have committed to principal activities as opportunities arise. We anticipate leveraging our balance sheet with the addition of long-term debt to facilitate these growth initiatives. All of these growth initiatives will require investments in personnel and other expenses, which may have a short-term negative impact on our profitability as it may take time to develop meaningful revenues.

RESULTS FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2007

The turmoil in the credit markets created challenging capital markets conditions in the third quarter of 2007, negatively impacting nearly all of our businesses. Net revenues from continuing operations for the three months ended September 30, 2007 were $92.9 million, a decline of 20.0 percent compared with the prior-year period. For the three months ended September 30, 2007, net income from continuing operations totaled $4.8 million, or $0.28 per diluted share, compared to $9.5 million, or $0.50 per diluted share, for the corresponding period in 2006. For the three months ended September 30, 2007, our net income, including continuing and discontinued operations, was $4.4 million, or $0.26 per diluted share, compared to net income of $186.6 million, or $9.79 per diluted share, for the prior-year period. Net income for the third quarter of 2006 included a gain of $179.7 million after tax and net of restructuring and transaction costs from the sale of our PCS branch network to UBS.

For the nine months ended September 30, 2007, net revenues from continuing operations were $352.4 million, a slight decrease from the year-ago period. For the nine months ended September 30, 2007, net income from continuing operations totaled $29.9 million, or $1.70 per diluted share, compared to $36.2 million, or $1.87 per diluted share, for the corresponding period in 2006. Net income, including continuing and discontinued operations, for the nine months ended September 30, 2007 was $27.1 million, or $1.54 per diluted share, compared to net income of $214.6 million, or $11.12 per diluted share, for the prior-year period.

EXTERNAL FACTORS IMPACTING OUR BUSINESS

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

Factors that differentiate our business within the financial services industry also may affect our financial results. For example, our business focuses on specific industry sectors. These sectors may experience growth or downturns independently of general economic and market conditions, or may face market conditions that are disproportionately better or worse than those impacting the economy and markets generally. In either case, our business could be affected differently than overall market trends. Given the variability of the capital markets and securities businesses, our earnings may fluctuate significantly from period to period, and results of any individual period should not be considered indicative of future results.

Table of Contents

Results of Operations

FINANCIAL SUMMARY FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2007 AND SEPTEMBER 30, 2006

The following table provides a summary of the results of our operations and the results of our operations as a percentage of net revenues for the three months ended September 30, 2007 and September 30, 2006.

	Results of Operations			Results of Operations as a Percentage of Net Revenues	
	For the Three Months Ended September 30,			For the Three Months Ended September 30,	
(Dollars in thousands)	**2007**	**2006**	**2007 v2006**	**2007**	**2006**
Revenues:					
Investment banking	$ 50,276	$ 71,261	(29.4)%	54.1%	61.4%
Institutional brokerage	31,624	36,618	(13.6)	34.0	31.5
Interest	15,003	16,663	(10.0)	16.2	14.4
Asset management	903	2	N/M	1.0	0.0
Other income	735	53	N/M	0.8	0.0
Total revenues	98,541	124,597	(20.9)	106.1	107.3
Interest expense	5,647	8,490	(33.5)	6.1	7.3
Net revenues	92,894	116,107	(20.0)	100.0	100.0
Non-interest expenses:					
Compensation and benefits	54,343	69,079	(21.3)	58.5	59.5
Occupancy and equipment	7,201	6,878	4.7	7.8	5.9
Communications	6,040	5,761	4.8	6.5	5.0
Floor brokerage and clearance	3,564	3,759	(5.2)	3.8	3.2
Marketing and business development	6,064	5,820	4.2	6.5	5.0
Outside services	8,134	6,344	28.2	8.8	5.5
Cash award program	450	512	(12.1)	0.5	0.4
Other operating expenses	1,064	2,905	(63.4)	1.1	2.5
Total non-interest expenses	86,860	101,058	(14.0)	93.5	87.0
Income from continuing operations before tax expense	6,034	15,049	(59.9)	6.5	13.0

Income tax expense	1,222	5,521	(77.9)	1.3	4.8
Net income from continuing operations	4,812	9,528	(49.5)	5.2	8.2%
Discontinued operations:					
Income/(loss) from discontinued operations, net of tax	(456)	177,085	N/M	(0.5)	N/M
Net income	$ 4,356	$ 186,613	(97.7)%	4.7%	N/M

N/M Not Meaningful

For the three months ended September 30, 2007, net income, including continuing and discontinued operations, totaled $4.4 million. Net revenues from continuing operations decreased 20.0 percent to $92.9 million for the third quarter of 2007. The difficult capital markets conditions in the third quarter of 2007 negatively impacted nearly all of our businesses. For the three months ended September 30, 2007, investment banking revenues decreased 29.4 percent to $50.3 million, compared with revenues of $71.3 million in the prior-year period. This decline in investment banking revenues was primarily due to lower equity financing activity and lower advisory services revenue. Institutional brokerage revenues decreased 13.6 percent to $31.6 million for the third quarter of 2007, compared with $36.6 million in the corresponding period in the prior year, due primarily to increased trading losses as a result of the volatility in the markets. In the third quarter of 2007, net interest income increased to $9.4 million, compared with $8.2 million in the third quarter of 2006. In August 2006, we repaid $180 million in subordinated debt with proceeds from the sale of our PCS branch network, reducing interest expense. For the three months ended September 30, 2007, asset management fees were $0.9 million, of which substantially all was generated by FAMCO. In the third quarter of 2007, other income was $0.7 million, compared with $0.1 million in the prior-year period, as a result of other income gains recorded on our investments in private equity funds. Non-interest expenses decreased to $86.9 million for the three months ended September 30, 2007, from $101.1 million in the corresponding period in the prior year. This decrease was primarily due to lower compensation and benefits expenses.

NON-INTEREST EXPENSES FROM CONTINUING OPERATIONS

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

For the three months ended September 30, 2007, compensation and benefits expenses decreased 21.3 percent to $54.3 million, from $69.1 million in the corresponding period in 2006. This decrease was due to a decline in variable compensation costs resulting from lower revenues. Compensation and benefits expenses as a percentage of net revenues decreased to 58.5 percent for the third quarter of 2007, compared with 59.5 percent for the third quarter of 2006.

Occupancy and Equipment - In the third quarter of 2007, occupancy and equipment expenses were $7.2 million, compared with $6.9 million for the corresponding period in 2006. This increase was primarily due to base rent increases associated with new leases during 2007.

Communications - Communication expenses include costs for telecommunication and data communication, primarily consisting of expenses for obtaining third-party market data information. For the three months ended September 30, 2007, communication expenses were $6.0 million, an increase of 4.8 percent from the prior-year period. This increase was due to higher market data service expenses from obtaining expanded services and price increases.

Floor Brokerage and Clearance - For the three months ended September 30, 2007, floor brokerage and clearance expenses were $3.6 million, compared with $3.8 million for the three months ended September 30, 2006, a decrease of 5.2 percent. This decrease was attributed to a decline in clearing fees associated with lower equity trading activity. Partially offsetting this decrease were higher expenses associated with accessing electronic communication networks as we increased after-market support of deal-related stocks.

Marketing and Business Development - Marketing and business development expenses include travel and entertainment and promotional and advertising costs. In the third quarter of 2007, marketing and business development expenses increased to $6.1 million, compared with $5.8 million in the third quarter of 2006.

Outside Services - Outside services expenses include securities processing expenses, outsourced technology functions, outside legal fees and other professional fees. Outside services expenses increased to $8.1 million in the third quarter of 2007, compared with $6.3 million for the prior-year period, an increase of 28.2 percent. This increase primarily was due to expenses related to the implementation of a new back-office system to support our capital markets business, which we completed in the third quarter of 2007.

Cash Award Program - As part of our spin-off from U.S. Bancorp in 2003, we established a cash award program pursuant to which we granted cash awards to a broad-based group of our employees. The award program was designed to aid in retention of employees and to compensate for the value of U.S. Bancorp stock options and restricted stock lost by our employees as a result of the spin-off. The cash awards are being expensed over a four-year period ending December 31, 2007. For the three months ended September 30, 2007, cash awards expense remained flat at $0.5 million, compared with the prior-year period. We anticipate incurring approximately $0.5 million of cash award expense within continuing operations in the fourth quarter of 2007.

Other Operating Expenses - Other operating expenses include insurance costs, license and registration fees, expenses related to our charitable giving program, amortization of intangible assets and litigation-related expenses, which consist of the amounts we reserve and/or pay out related to legal and regulatory matters. Other operating expenses decreased to $1.1 million in the third quarter of 2007, compared with $2.9 million in third quarter of 2006, primarily due to a decline in litigation-related expenses. We anticipate other operating expenses will increase in future periods as a result of amortization of intangible assets acquired in the FAMCO acquisition.

Table of Contents

Income Taxes - For the three months ended September 30, 2007, our provision for income taxes from continuing operations was $1.2 million, equating to an effective tax rate of 20.3 percent. For the three months ended September 30, 2006, income taxes from continuing operations were $5.5 million, equating to an effective tax rate of 36.7 percent. The unusually low 20.3 percent effective tax rate for the third quarter of 2007 was a result of an increase in the expected ratio of municipal interest income, which is non-taxable, to taxable income and the sharp decline in pre-tax income. This tax rate is not representative of our annual effective tax rate, which was 31.7 percent for the nine months ended September 30, 2007.

NET REVENUES FROM CONTINUING OPERATIONS (DETAIL)

	For the Three Months Ended September 30,		2007 vs.
(Dollars in thousands)	**2007**	**2006**	**2006**
Net revenues:			
Investment banking			
Financing			
Equities	$ 18,211	$ 31,417	(42.0)%
Debt	18,211	19,395	(6.1)
Advisory services	16,120	21,948	(26.6)
Total investment banking	52,542	72,760	(27.8)
Institutional sales and trading			
Equities	25,192	27,946	(9.9)
Fixed income	13,649	15,814	(13.7)
Total institutional sales and trading	38,841	43,760	(11.2)
Asset management	903	2	N/M
Other income	608	(415)	N/M
Total net revenues	$ 92,894	$ 116,107	(20.0)%

N/M Not Meaningful

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

For the three months ended September 30, 2007, investment banking revenues decreased 27.8 percent to $52.5 million, compared with $72.8 million in the corresponding period in the prior year. The adverse market conditions in the third quarter significantly impacted investment banking revenues, particularly within the equity finance business. Equity financing revenues declined 42.0 percent to $18.2 million, compared with $31.4 million in the corresponding period in the prior year. The decrease was due to a sharp decline in number of completed public offerings in the healthcare and consumer sectors and a decline in the average revenues per transaction. In the third quarter of 2007, we completed 14 equity financings, raising $2.4 billion in capital, compared with 20 equity financings, raising $2.0 billion in capital, in the prior-year period. In the third quarter of 2007, debt financing revenues decreased 6.1 percent to $18.2 million due to a decline in taxable debt financing revenues. Public finance revenues were consistent with the prior year period as higher revenues per transaction offset a reduction in the number of underwritings. We were the sole underwriter of 91 municipal issues with a par value of $1.3 billion during the third quarter of 2007, compared with 111 municipal issues with a par value of $1.5 billion in the prior-year period. Advisory services revenues decreased 26.6 percent to $16.1 million in the third quarter of 2007. This decrease in revenues was due to lower average revenues per transaction as we completed 12 mergers and acquisitions transactions during the third quarter of 2007, compared with 9 mergers and acquisitions transactions in the prior-year period.

Table of Contents

Institutional sales and trading revenues comprise all the revenues generated through trading activities, which consist primarily of facilitating customer trades. To assess the profitability of institutional sales and trading activities, we aggregate institutional brokerage revenues with the net interest income or expense associated with financing, economically hedging and holding long or short inventory positions. Our results may vary from quarter to quarter as a result of changes in trading margins, trading gains and losses, net interest spreads, trading volumes and the timing of transactions based on market opportunities. Increased price transparency in the fixed income market, pressure from institutional clients in the equity market to reduce commissions and the use of alternative trading systems in the equity market have put pressure on trading margins. We expect this pressure to continue.

For the three months ended September 30, 2007, institutional sales and trading revenues were $38.8 million, a decline of 11.2 percent compared with the prior-year period. Equity institutional sales and trading revenue decreased 9.9 percent, to $25.2 million due to higher trading losses resulting from greater market volatility during the quarter. Fixed income institutional sales and trading revenues decreased 13.7 percent to $13.6 million in the third quarter of 2007. This decline was a result of increased trading losses in high yield and structured products and taxable products.

Asset management fees include FAMCO asset management advisory services and management fees from our private equity funds. In the third quarter of 2007, asset management fees were $0.9 million due primarily to the acquisition of FAMCO, which was completed in September 2007.

Other income/loss includes gains and losses from our investments in private equity and venture capital funds as well as other firm investments. In addition, other income/loss included interest expense from our subordinated debt prior to its repayment in August 2006. In the third quarter of 2007, other income totaled $0.6 million, compared with a loss of $0.4 million in the three months ended September 30, 2006. In the third quarter of 2006, we repaid $180 million in subordinated debt, resulting in lower on-going interest expense.

DISCONTINUED OPERATIONS

Discontinued operations include the operating results of our PCS business and restructuring costs. The sale of the PCS branch network to UBS closed on August 11, 2006.

Our PCS retail brokerage business provided financial advice and a wide range of financial products and services to individual investors through a network of approximately 90 branch offices. Revenues were generated primarily through the receipt of commissions earned on equity and fixed income transactions and for distribution of mutual funds and annuities, fees earned on fee-based client accounts and net interest from customers margin loan balances.

In the third quarter of 2007, discontinued operations recorded a net loss of $0.5 million that included costs related to decommissioning a retail-oriented back-office system, PCS litigation-related expenses and restructuring charges. The decommissioning of our retail-oriented back-office system was completed in the third quarter of 2007 and we do not expect to incur any additional costs related to this system. We may incur discontinued operations expense or income in future periods related to changes in litigation reserve estimates for retained PCS litigation matters and for changes in estimates to occupancy and severance restructuring charges if the facts that support our estimates change. See Note 4 and Note 13 to our unaudited consolidated financial statements for further discussion of our discontinued operations and restructuring activities.

Table of Contents

FINANCIAL SUMMARY FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

The following table provides a summary of the results of our operations and the results of our operations as a percentage of net revenues for the nine months ended September 30, 2007 and September 30, 2006.

	Results of Operations			Results of Operations as a Percentage of Net Revenues	
	For the Nine Months Ended September 30,			For the Nine Months Ended September 30,	
(Dollars in thousands)	**2007**	**2006**	**2007 v2006**	**2007**	**2006**
Revenues:					
Investment banking	$ 208,881	$ 205,346	1.7%	59.3%	57.6%
Institutional brokerage	111,451	119,436	(6.7)	31.6	33.5
Interest	46,229	44,869	3.0	13.1	12.6
Asset management	1,102	17	N/M	0.3	0.0
Other income	1,523	12,434	(87.8)	0.5	3.5
Total revenues	369,186	382,102	(3.4)	104.8	107.2
Interest expense	16,766	25,786	(35.0)	4.8	7.2
Net revenues	352,420	356,316	(1.1)	100.0	100.0
Non-interest expenses:					
Compensation and benefits	206,166	202,656	1.7	58.5	56.9
Occupancy and equipment	23,772	21,705	9.5	6.8	6.1
Communications	18,296	16,737	9.3	5.2	4.7
Floor brokerage and clearance	11,255	9,807	14.8	3.2	2.7
Marketing and business development	18,125	17,121	5.9	5.1	4.8
Outside services	24,573	19,472	26.2	7.0	5.5
Cash award program	1,196	2,673	(55.3)	0.3	0.7
Other operating expenses	5,268	10,252	(48.6)	1.5	2.9
Total non-interest expenses	308,651	300,423	2.7	87.6	84.3
Income from continuing operations before tax expense	43,769	55,893	(21.7)	12.4	15.7
Income tax expense	13,858	19,730	(29.8)	3.9	5.6

Net income from continuing operations	29,911	36,163	(17.3)	8.5	10.1%
Discontinued operations:					
Income/(loss) from discontinued operations, net of tax	(2,811)	178,444	N/M	(0.8)	N/M
Net income	$ 27,100	$ 214,607	(87.4)%	7.7%	N/M

N/M Not Meaningful

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

Table of Contents

For the nine months ended September 30, 2007, net income, which includes both continuing and discontinued operations, totaled $27.1 million, compared with $214.6 million from the year-ago period. The nine months ended September 30, 2006 included a gain of $169.1 million after tax and net of restructuring and transaction costs from the sale of our PCS branch network to UBS. Net revenues from continuing operations decreased slightly to $352.4 million for the nine months ended September 30, 2007, compared with the corresponding period in the prior year. Investment banking revenues increased 1.7 percent to $208.9 million for the nine months ended September 30, 2007, compared with revenues of $205.3 million in the prior-year period. This increase was a result of higher equity and debt financing revenues, offset by a decline in advisory services revenues. Institutional brokerage revenues decreased 6.7 percent over the prior-year period to $111.5 million as a result of decreased equity commissions due to lower trading volumes. Net interest income for the first nine months of 2007 increased to $29.5 million, up from $19.1 million for the first nine months of 2006. This increase was primarily driven by significantly reduced borrowing needs following the sale of our PCS branch network in August 2006. For the nine months ended September 30, 2007, asset management fees were $1.1 million, primarily as a result of the FAMCO acquisition completed in September 2007. Other income for the nine months ended September 30, 2007 was $1.5 million, compared with $12.4 million for the corresponding period in the prior year. In the first nine months of 2006, we recorded a $9.3 million gain related to our ownership of two seats on the New York Stock Exchange, Inc. (NYSE), which were exchanged for cash and restricted shares of the NYSE Group, Inc. Non-interest expenses increased to $308.7 million for the nine months ended September 30, 2007, from $300.4 million for the nine months ended September 30, 2006. This increase was attributable to increased benefits expenses and increased outside services expense due to costs related to implementation of a new back-office system to support our capital markets business.

NON-INTEREST EXPENSES FROM CONTINUING OPERATIONS

Compensation and Benefits - For the nine months ended September 30, 2007, compensation and benefits expenses increased to $206.2 million, from $202.7 million in the corresponding period in 2006. Compensation and benefits expenses as a percentage of net revenues increased to 58.5 percent for the nine months ended September 30, 2007, compared with 56.9 percent for the corresponding period in 2006. The $9.3 million gain related to our ownership of two seats on the NYSE lowered our compensation ratio by 150 basis points for the nine months ended September 30, 2006. Excluding this gain, our compensation ratio for the nine months ended September 30, 2006 was flat compared to the nine months ended September 30, 2007.

Occupancy and Equipment For the nine months ended September 30, 2007, occupancy and equipment expenses were $23.8 million, compared with $21.7 million in the prior year period, an increase of 9.5 percent. In the second quarter of 2007, we incurred costs of $0.9 million to relocate office space in New York City. We also have incurred increased base rent costs associated with new and existing locations during 2007.

Floor Brokerage and Clearance - For the nine months ended September 30, 2007, floor brokerage and clearance expenses were $11.3 million, compared with $9.8 million for the corresponding period in 2006. This increase was attributable to higher expenses associated with accessing electronic communication networks as we increased after-market support of deal-related stocks.

Income Taxes - For the nine months ended September 30, 2007, our provision for income taxes from continuing operations was $13.9 million, equating to an effective tax rate of 31.7 percent. For the nine months ended September 30, 2006, income taxes from continuing operations were $19.7 million, equating to an effective tax rate of 35.3 percent. The decreased effective tax rate for the nine months ended September 30, 2007, was attributable to an increase in the ratio of non-taxable municipal interest income to total taxable income.

Table of Contents

NET REVENUES FROM CONTINUING OPERATIONS (DETAIL)

	For the Nine Months Ended September 30,		2007 vs.
(Dollars in thousands)	2007	2006	2006
Net revenues:			
Investment banking			
Financing			
Equities	$ 98,996	$ 91,171	8.6%
Debt	63,513	56,120	13.2
Advisory services	52,702	62,473	(15.6)
Total investment banking	215,211	209,764	2.6
Institutional sales and trading			
Equities	85,049	90,907	(6.4)
Fixed income	48,978	48,877	0.2
Total institutional sales and trading	134,027	139,784	(4.1)
Asset management	1,102	17	N/M
Other income	2,080	6,751	(69.2)
Total net revenues	$ 352,420	$ 356,316	(1.1)%

N/M Not Meaningful

For the nine months ended September 30, 2007, investment banking revenues increased 2.6 percent to $215.2 million, compared with $209.8 million in the prior-year period. Equity financing revenues were $99.0 million, an increase of 8.6 percent, which was due to higher revenues per transaction. During the nine months ended September 30, 2007, we completed 73 equity financings, raising $10.5 billion in capital, compared with 74 equity offerings, raising $9.5 billion in capital, during the nine months ended September 30, 2006. For the nine months ended September 30, 2007, debt financing revenues rose 13.2 percent to $63.5 million. This increase resulted from higher public finance revenues due to increased average revenues per transaction. We were the sole underwriter of 324 public finance issues with a par value of $5.1 billion in the first nine months of 2007, compared with 329 public finance issues with a par value of $4.7 billion in the prior-year period. Advisory services revenues decreased 15.6 percent to $52.7 million for the nine months ended September 30, 2007 due to a decline in our domestic merger and acquisition revenues. We completed 29 U.S. mergers and acquisitions transactions for the first nine months of 2007, compared with 33 deals for the first nine months of 2006.

For the nine months ended September 30, 2007, institutional sales and trading revenues declined 4.1 percent to $134.0 million, compared with the prior-year period. Equity institutional sales and trading revenue decreased 6.4 percent to $85.0 million, due to lower volumes and lower commission rates. Fixed income institutional sales and trading revenues were flat for the nine months ended September 30, 2007, compared with the corresponding period in 2006.

DISCONTINUED OPERATIONS

For the nine months ended September 30, 2007, discontinued operations recorded a net loss of $2.8 million. The underlying reasons for costs recorded to discontinued operations for the nine months ended September 30, 2007 are substantially the same as those described in the discussion for the three months ended September 30, 2007.

Table of Contents

Recent Accounting Pronouncements

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

Critical Accounting Policies

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

For a full description of our significant accounting policies, see Note 2 to our consolidated financial statements included in our Annual Report on Form 10-K for the year-ended December 31, 2006. We believe that of our significant accounting policies, the following are our critical accounting policies.

VALUATION OF FINANCIAL INSTRUMENTS

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

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

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

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

25

Table of Contents

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

The following table presents the carrying value of our trading securities owned, trading securities owned and pledged as collateral and trading securities sold, but not yet purchased for which fair value is measured based on quoted prices or other independent sources versus those for which fair value is determined by management.

September 30, 2007 *(Dollars in thousands)*	**Trading Securities Owned or Pledged**	**Trading Securities Sold, But Not Yet Purchased**
Fair value of securities excluding derivatives, based on quoted prices and independent sources	$ 711,620	$ 254,377
Fair value of securities excluding derivatives, as determined by management	9,311	
Fair value of derivatives, as determined by management	32,228	7,101
	$ 753,159	$ 261,478

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

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements, but its application may, for some entities, change current practice. SFAS 157 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact of SFAS 157 on our results of operations and financial condition.

In February 2007, the FASB issued SFAS 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. If elected, SFAS 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007, with earlier adoption permitted provided that the entity also early adopts all of the requirements of SFAS 157. We are currently evaluating the impact of SFAS 159 on our results of operations and financial condition.

GOODWILL AND INTANGIBLE ASSETS

We record all assets and liabilities acquired in purchase acquisitions, including goodwill and other intangible assets, at fair value as required by Statement of Financial Accounting Standards No. 141, Business Combinations. Determining the fair value of assets and liabilities acquired requires certain management estimates. In September 2007, we recorded $33.4 million of goodwill and $17.7 million of identifiable intangible assets related to the acquisition of FAMCO. At September 30, 2007, we had goodwill of $264.9 million. Of this goodwill balance, $220.0 million is a result of the 1998 acquisition of our predecessor, Piper Jaffray Companies Inc., and its subsidiaries by U.S. Bancorp. In conjunction with the sale of our PCS branch network to UBS, we wrote-off $85.6 million of goodwill during the third quarter of 2006.

Under Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, we are required to perform impairment tests of our goodwill and indefinite-lived intangible assets annually and more frequently in certain circumstances. We have elected to test for goodwill impairment in the fourth quarter of each calendar year. The goodwill impairment test is a two-step process, which requires management to make judgments in determining what assumptions to use in the calculation. The first step of the process consists of estimating the fair value of our two operating segments based on a discounted cash flow model using revenue and profit forecasts and comparing those estimated fair values with carrying values, which includes the allocated goodwill. If the estimated fair value is less than the carrying values, a second step is performed to compute the amount of the impairment by determining an implied fair value of goodwill. The determination of a reporting unit s implied fair value of goodwill requires us to allocate the estimated fair value of the reporting unit to the assets and liabilities of the reporting unit. Any unallocated fair value represents the implied fair value of goodwill, which is compared to its corresponding carrying value. We completed our last goodwill impairment test as of October 31, 2006, and no impairment was identified.

As noted above, the initial recognition of goodwill and other intangible assets and the subsequent impairment analysis requires management to make subjective judgments concerning estimates of how the acquired assets or businesses will perform in the future using valuation methods including discounted cash flow analysis. Events and factors that may significantly affect the estimates include, among others, competitive forces and changes in revenue growth trends, cost structures, technology, discount rates and market conditions. Additionally, estimated cash flows may extend beyond ten years and, by their nature, are difficult to determine over an extended time period. To assess the reasonableness of cash flow estimates and validate assumptions used in our estimates, we review historical performance of the underlying assets or similar assets.

In assessing the fair value of our operating segments, the volatile nature of the securities markets and our industry requires us to consider the business and market cycle and assess the stage of the cycle in estimating the timing and extent of future cash flows. In addition to estimating the fair value of an operating segment based on discounted cash flows, we consider other information to validate the reasonableness of our valuations, including public market comparables and multiples of recent mergers and acquisitions of similar businesses. Valuation multiples may be based on revenues, price-to-earnings and tangible capital ratios of comparable public companies and business segments. These multiples may be adjusted to consider competitive differences including size, operating leverage and other factors. If during any future period it is determined that an impairment exists, the results of operations in that period could be materially adversely affected.

STOCK-BASED COMPENSATION

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

Effective January 1, 2006, we adopted the provisions of Statement of Financial Accounting Standards No. 123(R), Share-Based Payment, (SFAS 123(R)), using the modified prospective transition method. SFAS 123(R) requires all stock-based compensation to be expensed in the consolidated statement of operations at fair value, net of estimated forfeitures. Because we had historically expensed all equity awards based on the fair value method, net of estimated forfeitures, SFAS 123(R) did not have a material effect on our measurement or recognition methods for stock-based compensation.

Compensation paid to employees in the form of stock options or restricted stock is generally amortized on a straight-line basis over the required service period of the award, which is typically three years, and is included in our results of operations as compensation expense, net of estimated forfeitures. The majority of our restricted stock grants provide for continued vesting after termination, provided the employee does not violate certain post-termination restrictions as set forth in the award agreements. We consider the required service period to be the greater of the vesting period or the post-termination restricted period. We believe that our non-competition restrictions meet the SFAS 123(R) definition of a substantive service requirement.

Stock-based compensation granted to our non-employee directors is in the form of common shares of Piper Jaffray Companies stock and/or stock options. Stock-based compensation paid to directors is immediately vested (i.e., there is no continuing service requirement) and is included in our results of operations as outside services expense as of the date of grant.

In determining the estimated fair value of stock options, we use the Black-Scholes option-pricing model. This model requires management to exercise judgment with respect to certain assumptions, including the expected dividend yield, the expected volatility, and the expected life of the options. The expected dividend yield assumption is derived from the assumed dividend payout over the expected life of the option. The expected volatility assumption for grants subsequent to December 31, 2006 was derived from a combination of our historical data and industry comparisons, as we had limited information on which to base our volatility estimates because we have only been a public company since the beginning of 2004. The expected volatility assumption for grants prior to December 31, 2006 were based solely on industry comparisons. The expected life of options assumption is derived from the average of the following two factors: industry comparisons and the guidance provided by the SEC in Staff Accounting Bulletin No. 107 (SAB 107). SAB 107 allowed the use of an acceptable methodology under which we can take the midpoint of the vesting date and the full contractual term. We believe our approach for calculating an expected life to be an appropriate method in light of the limited historical data regarding employee exercise behavior or employee post-termination behavior. Additional information regarding assumptions used in the Black-Scholes pricing model can be found in Note 16 to our unaudited consolidated financial statements.

Table of Contents

CONTINGENCIES

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

Under the terms of our separation and distribution agreement with U.S. Bancorp and ancillary agreements entered into in connection with the spin-off in December 2003, we generally are responsible for all liabilities relating to our business, including those liabilities relating to our business while it was operated as a segment of U.S. Bancorp under the supervision of its management and board of directors and while our employees were employees of U.S. Bancorp servicing our business. Similarly, U.S. Bancorp generally is responsible for all liabilities relating to the businesses U.S. Bancorp retained. However, in addition to our established reserves, U.S. Bancorp agreed to indemnify us in an amount up to $17.5 million for losses that result from certain matters, primarily third-party claims relating to research analyst independence. U.S. Bancorp has the right to terminate this indemnification obligation in the event of a change in control of our company. As of September 30, 2007, approximately $13.2 million of the indemnification remained available.

As part of the asset purchase agreement for the sale of our PCS branch network to UBS that closed in August 2006, UBS agreed to assume certain liabilities of the PCS business, including certain liabilities and obligations arising from litigation, arbitration, customer complaints and other claims related to the PCS business. In certain cases we have agreed to indemnify UBS for litigation matters after UBS has incurred costs of $6.0 million related to these matters. In addition, we have retained liabilities arising from regulatory matters and certain PCS litigation arising prior to the sale.

Subject to the foregoing, we believe, based on our current knowledge, after appropriate consultation with outside legal counsel and after taking into account our established reserves, the U.S. Bancorp indemnity agreement and the assumption by UBS of certain liabilities of the PCS business, that pending litigation, arbitration and regulatory proceedings will be resolved with no material adverse effect on our financial condition. However, if, during any period, a potential adverse contingency should become probable or resolved for an amount in excess of the established reserves and indemnification and assumption obligations, the results of operations in that period could be materially adversely affected.

Liquidity and Capital Resources

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

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

Table of Contents

A significant component of our employees compensation is paid in an annual discretionary bonus. The timing of these bonus payments, which generally are paid in February, has a significant impact on our cash position and liquidity when paid.

We currently do not pay cash dividends on our common stock.

In August 2006, we sold our PCS branch network to UBS for approximately $750 million. Most of these proceeds have been either redeployed to our shareholders or invested back into our business. The following summarizes the use of these proceeds: approximately $100 million was used to repay stock loan liabilities related to financing the PCS customer margin accounts receivable, $180 million was utilized to extinguish our subordinated debt, $180 million was utilized to repurchase our outstanding common stock, $160 million was paid in corporate and state income taxes on the PCS sale gain, $51 million was used in September 2007 to purchase FAMCO and $47 million was used in October 2007 to purchase Goldbond.

As of September 30, 2007, our balance sheet is not leveraged with any long-term debt. We anticipate adding long-term debt financing to facilitate certain growth initiatives.

FUNDING SOURCES

We have available discretionary short-term financing on both a secured and unsecured basis. Secured financing is obtained through the use of repurchase agreements and secured bank loans. Repurchase agreements and bank loans are typically collateralized by the firm s securities inventory. Short-term funding is generally obtained at rates based upon the federal funds rate.

To finance customer receivables we utilized an average of $5 million in short-term bank loans and an average of $0.4 million in securities lending arrangements in the third quarter of 2007. This compares to an average of $4 million in short-term bank loans and an average of $81 million in securities lending arrangements in the third quarter of 2006. Average net repurchase agreements (excluding economic hedges) of $83 million and $55 million in the third quarter of 2007 and 2006, respectively, were primarily used to finance inventory. Growth in our securities inventory is generally financed through repurchase agreements. Bank financing supplements repurchase agreement financing as necessary. On September 30, 2007, we had no outstanding short-term bank financing.

As of September 30, 2007, we had uncommitted credit agreements with banks totaling $677 million, comprised of $557 million in discretionary secured lines and $120 million in discretionary unsecured lines. We have been able to obtain necessary short-term borrowings in the past and believe we will continue to be able to do so in the future. We also have established arrangements to obtain financing using as collateral our securities held by our clearing bank or by another broker dealer at the end of each business day.

CONTRACTUAL OBLIGATIONS

Our contractual obligations have not materially changed from those reported in our Annual Report to Shareholders on Form 10-K for the year ended December 31, 2006.

CAPITAL REQUIREMENTS

As a registered broker dealer and member firm of the Financial Industry Regulatory Authority (FINRA), our broker dealer subsidiary is subject to the uniform net capital rule of the SEC and the net capital rule of the NYSE. We have elected to use the alternative method permitted by the uniform net capital rule, which requires that we maintain minimum net capital of the greater of $1.0 million or 2 percent of aggregate debit balances arising from customer transactions, as this is defined in the rule. The NYSE may prohibit a member firm from expanding its business or paying dividends if resulting net capital would be less than 5 percent of aggregate debit balances. Advances to affiliates, repayment of subordinated liabilities, dividend payments and other equity withdrawals are subject to certain notification and other provisions of the uniform net capital rule and the net capital rule of the NYSE. We expect that these provisions will not impact our ability to meet current and future obligations. In addition, we are subject to certain notification requirements related to withdrawals of excess net capital from our broker dealer subsidiary. Piper Jaffray Ltd., our registered United Kingdom broker dealer subsidiary, is subject to the capital requirements of the U.K. Financial Services Authority.

At September 30, 2007, net capital under the SEC s Uniform Net Capital Rule was $240.8 million and $238.4 million in excess of the minimum required net capital.

Off-Balance Sheet Arrangements

We enter into various types of off-balance sheet arrangements in the ordinary course of business. We hold retained interests in non-consolidated entities, incur obligations to commit capital to non-consolidated entities, enter into derivative transactions, enter into non-derivative guarantees, commit to short-term bridge loan financing for our clients, make commitments to underwrite corporate debt and enter into other off-balance sheet arrangements.

We enter into arrangements with special-purpose entities (SPEs), also known as variable interest entities. SPEs are corporations, trusts or partnerships that are established for a limited purpose. SPEs, by their nature, generally are not controlled by their equity owners, as the establishing documents govern all material decisions. Our primary involvement with SPEs relates to securitization transactions related to our tender option bond program in which highly rated fixed rate municipal bonds are sold to an SPE. We follow Statement of Financial Accounting Standards No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities a Replacement of FASB Statement No. 125, (SFAS 140), to account for securitizations and other transfers of financial assets. Therefore, we derecognize financial assets transferred in securitizations provided that such transfer meets all of the SFAS 140 criteria. See Note 7, Securitizations, in the notes to our unaudited consolidated financial statements for a complete discussion of our securitization activities.

We have investments in various entities, typically partnerships or limited liability companies, established for the purpose of investing in emerging growth companies or other private or public equity. We commit capital or act as the managing partner or member of these entities. These entities are reviewed under variable interest entity and voting interest entity standards. If we determine that an entity should not be consolidated, we record these investments on the equity method of accounting. The lower of cost or market method of accounting is applied to investments where we do not have the ability to exercise significant influence over the operations of an entity. For a complete discussion of our activities related to these types of partnerships, see Note 7, Variable Interest Entities, to our consolidated financial statements included in our Annual Report to Shareholders on Form 10-K for the year ended December 31, 2006.

We enter into derivative contracts in a principal capacity as a dealer to satisfy the financial needs of clients. We also use derivative products to manage the interest rate and market value risks associated with our security positions. In addition, we enter into loan swap agreements to receive the total return of certain loan assets without transferring actual ownership of the underlying loan to us. For a complete discussion of our activities related to derivative products, see Note 6, Derivatives, in the notes to our unaudited consolidated financial statements.

Our other types of off-balance-sheet arrangements include contractual commitments and guarantees. For a discussion of our activities related to these off-balance sheet arrangements, see Note 15, Contingencies, Commitments and Guarantees, to our consolidated financial statements included in our Annual Report to Shareholders on Form 10-K for the year ended December 31, 2006.

Enterprise Risk Management

Risk is an inherent part of our business. In the course of conducting business operations, we are exposed to a variety of risks. Market risk, credit risk, liquidity risk, operational risk, and legal, regulatory and compliance risk are the principal risks we face in operating our business. We seek to identify, assess and monitor each risk in accordance with defined policies and procedures. The extent to which we properly identify and effectively manage each of these risks is critical to our financial condition and profitability. For a full description of our risk management framework, see Management s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year-ended December 31, 2006.

VALUE-AT-RISK

Value-at-Risk (VaR) is the potential loss in value of our trading positions due to adverse market movements over a defined time horizon with a specified confidence level. We use a VaR model because it provides a common metric for assessing market risk across business lines and products. The modeling of the market risk characteristics of our trading positions involves a number of assumptions and approximations. While we believe that these assumptions and approximations are reasonable, different assumptions and approximations could produce materially different VaR estimates.

Table of Contents

We perform a daily historical simulated VaR analysis on substantially all of our trading positions, including fixed income, equities, convertible bonds and all associated economic hedges. This analysis includes empirical VaR and simulated VaR as described below. Consistent with industry practice, when calculating VaR we use a 95 percent confidence level and a one-day time horizon for calculating both empirical and simulated VaR. This means, that over time, there is a 1 in 20 chance that daily trading net revenues will fall below the expected daily trading net revenues by an amount at least as large as the reported VaR. There can be no assurance that actual losses occurring on any given day arising from changes in market conditions will not exceed the VaR amounts shown below or that such losses will not occur more than once in a 20-day trading period. Changes in VaR between reporting periods are generally due to changes in levels of risk exposure, volatilities and/or correlations among asset classes. We anticipate our aggregate VaR may increase in future periods as we commit more of our own capital to proprietary investments.

We report an empirical VaR based on net realized trading revenue volatility. Empirical VaR presents an inclusive measure of our historical risk exposure, as it incorporates virtually all trading activities and types of risk including market, credit, liquidity and operational risk. The exhibit below presents VaR using the past 250 days of net trading revenue.

The following table quantifies the empirical VaR for each component of market risk for the periods presented:

(Dollars in thousands)	**At September 30, 2007**	At December 31, 2006
Interest Rate Risk	**$ 609**	$ 281
Equity Price Risk	**371**	261
Aggregate Undiversified Risk	**980**	542
Diversification Benefit	**(221)**	(112)
Aggregate Diversified Value-at-Risk	**$ 759**	$ 430

The table below illustrates the daily high, low and average empirical VaR calculated for each component of market risk during the nine months ended September 30, 2007 and the year ended December 31, 2006, respectively.

For the Nine Months Ended September 30, 2007

(Dollars in thousands)	High	Low	Average
Interest Rate Risk	$609	$354	$439
Equity Price Risk	372	257	296
Aggregate Undiversified Risk	981	623	735
Aggregate Diversified Value-at-Risk	759	411	513

For the Year Ended December 31, 2006

(Dollars in thousands)	High	Low	Average
Interest Rate Risk	$355	$262	$308
Equity Price Risk	346	254	290
Aggregate Undiversified Risk	679	521	598
Aggregate Diversified Value-at-Risk	541	404	474

Table of Contents

We use simulated VaR for managing risk on a daily basis. Simulated VaR involves constructing a distribution of hypothetical daily changes in the value of our positions based on market risk factors embedded in the current portfolio and historical observations of daily changes in these factors. These models have inherent limitations, including reliance on historical data to predict future market risk and the parameters established in creating the models that limit quantitative risk information outputs. Different VaR methodologies and distribution assumptions used in the models could produce materially different VaR numbers.

The following table quantifies the simulated VaR for each component of market risk for the periods presented:

(Dollars in thousands)	**At September 30, 2007**	At December 31, 2006
Interest Rate Risk	**$ 908**	$ 574
Equity Price Risk	**308**	177
Aggregate Undiversified Risk	**1,216**	751
Diversification Benefit	**(257)**	(150)
Aggregate Diversified Value-at-Risk	**$ 959**	$ 601

Supplementary measures used to monitor and manage market risk exposure include net market position, duration exposure, option sensitivities, and inventory turnover. All metrics are aggregated by asset concentration and are used for monitoring limits and exception approvals.

We anticipate our aggregate VaR may increase in future periods as we commit more of our own capital to proprietary investments.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

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

During the third quarter of fiscal 2007, we decommissioned a retail-oriented back office system and completed the conversion to a new back-office system. Our back-office system is responsible for the execution, comparison and settlement of securities transactions, and as a result, it has a material impact on our operations and our ability to properly process and record financial information. Implementation of this system required us to revise certain key financial statement controls. Except for the change relating to the conversion of our back-office system, during the third quarter of our fiscal year ended December 31, 2007, there was no change in our system of internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The following supplements and amends our discussion set forth under Item 3 Legal Proceedings in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006, as updated by our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2007 and June 30, 2007.

Initial Public Offering Allocation Litigation

Plaintiffs petitioned the Second Circuit for rehearing and rehearing en banc of its decision. The Second Circuit denied the petition for rehearing. Plaintiffs have filed amended complaints in the class certification focus cases.

Initial Public Offering Fee Antitrust Litigation

The Second Circuit reversed and remanded the decision denying class certification.

ITEM 1A. RISK FACTORS

The discussion of our business and operations should be read together with the risk factors contained in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2006 filed with the SEC, as updated in our subsequent reports on Form 10-Q filed with the SEC. These risk factors describe various risks and uncertainties to which we are or may become subject. These risks and uncertainties have the potential to affect our business, financial condition, results of operations, cash flows, strategies or prospects in a material and adverse manner.

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

The table below sets forth the information with respect to purchases made by or on behalf of Piper Jaffray Companies or any affiliated purchaser (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of our common stock during the quarter ended September 30, 2007.

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

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(1)
Month #1 (July 1, 2007 to July 31, 2007)	846,397(2)	$ 49.17	846,140	$28 million
Month #2 (August 1, 2007 to August 31, 2007)	586,792(3)	$ 48.45	585,650	$0
Month #3 (September 1, 2007 to September 30, 2007)	0	$ 0	0	$0
Total	1,433,189	$ 48.87	1,431,790	

(1) On August 14, 2006 we announced that our board of directors had authorized the

repurchase of up to $180 million of common shares over a period commencing with the closing of the sale of our PCS branch network to UBS and ending on December 31, 2007. On August 8, 2007, we completed the repurchase authorization.

(2) Consists of 846,140 shares of common stock repurchased on the open market pursuant to a 10b5-1 plan established with an independent agent at an average price per share of $49.17, and 257 shares of common stock from recipients of restricted stock to pay taxes upon the vesting of the restricted stock at an average price per share of $55.73.

(3) Consists of 585,650 shares of common stock repurchased on the open market pursuant to a

10b5-1 plan established with an independent agent at an average price per share of $48.44, and 1,142 shares of common stock from recipients of restricted stock to pay taxes upon the vesting of the restricted stock at an average price per share of $53.42.

Table of Contents

ITEM 6. EXHIBITS

Exhibit Number	Description	Method of Filing
2.1	Amendment to Agreement of Purchase and Sale dated September 14, 2007 among Piper Jaffray Companies, Piper Jaffray Investment Management Inc. (formerly known as Piper Jaffray Newco Inc.), WG CAR, LLC, Charles D. Walbrandt, Joseph E. Gallagher, Jr., Wiley D. Angell, James J. Cunnane, Jr. and Mohammed Riad.	(1)
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.	Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.	Filed herewith
32.1	Certifications furnished pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith

(1) Incorporated herein by reference to Item 2.2 of the Company s Form 8-K, filed with the Commission on September 14, 2007.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on November 9, 2007.

PIPER JAFFRAY COMPANIES

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

By /s/ Thomas P. Schnettler
Its Vice Chairman and Chief Financial Officer

Table of Contents

Exhibit Index

Exhibit Number	Description	Method of Filing
2.1	Amendment to Agreement of Purchase and Sale dated September 14, 2007 among Piper Jaffray Companies, Piper Jaffray Investment Management Inc. (formerly known as Piper Jaffray Newco Inc.), WG CAR, LLC, Charles D. Walbrandt, Joseph E. Gallagher, Jr., Wiley D. Angell, James J. Cunnane, Jr. and Mohammed Riad.	(1)
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.	Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.	Filed herewith
32.1	Certifications furnished pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith

(1) Incorporated herein by reference to Item 2.2 of the Company s Form 8-K, filed with the Commission on September 14, 2007.