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FORM 10-Q

PIPER JAFFRAY COMPANIES - PJC

Filed: May 04, 2007 (period: March 31, 2007)

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

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

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2007

OR

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

For the transition period from __________to__________

Commission File No. 001-31720

PIPER JAFFRAY COMPANIES
(Exact name of registrant as specified in its charter)

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

(612) 303-6000
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant 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 ☑ Accelerated Filer ☐ Non-Accelerated Filer ☐

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

As of April 27, 2007, the registrant had 18,880,350 shares of Common Stock outstanding.

Source: PIPER JAFFRAY COMPANIES, 10-Q, May 04, 2007 Powered by Morningstar® Document Research℠

Piper Jaffray Companies
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Piper Jaffray Companies
Consolidated Statements of Financial Condition

(Amounts in thousands, except share data)	March 31, 2007 (Unaudited)	December 31, 2006
Assets		
Cash and cash equivalents	$ 49,884	$ 39,903
Cash and cash equivalents segregated for regulatory purposes	35,000	25,000
Receivables:		
Customers	41,889	51,441
Brokers, dealers and clearing organizations	104,645	312,874
Deposits with clearing organizations	33,530	30,223
Securities purchased under agreements to resell	183,215	139,927
Trading securities owned	690,737	776,684
Trading securities owned and pledged as collateral	301,837	89,842
Total trading securities owned	992,574	866,526
Fixed assets (net of accumulated depreciation and amortization of $50,622 and $48,603, respectively)	26,183	25,289
Goodwill	231,567	231,567
Intangible assets (net of accumulated amortization of $3,733 and $3,333, respectively)	1,067	1,467
Other receivables	35,112	39,347
Other assets	87,596	88,283
Total assets	$ 1,822,262	$ 1,851,847
Liabilities and Shareholders' Equity		
Payables:		
Customers	$ 56,990	$ 83,899
Checks and drafts	8,319	13,828
Brokers, dealers and clearing organizations	43,322	210,955
Securities sold under agreements to repurchase	310,222	91,293
Trading securities sold, but not yet purchased	274,002	217,584
Accrued compensation	64,431	164,346
Other liabilities and accrued expenses	134,310	145,503
Total liabilities	891,596	927,408
Shareholders' equity:		
Common stock, $0.01 par value;		
Shares authorized: 100,000,000 at March 31, 2007 and December 31, 2006;		
Shares issued: 19,487,319 at March 31, 2007 and December 31, 2006;		
Shares outstanding: 17,057,801 at March 31, 2007 and 16,984,474 at December 31, 2006	195	195
Additional paid-in capital	717,075	723,928
Retained earnings	339,102	325,684
Less common stock held in treasury, at cost: 2,429,518 shares at March 31, 2007 and 2,502,845 at December 31, 2006	(126,060)	(126,026)
Other comprehensive income	354	658
Total shareholders' equity	930,666	924,439
Total liabilities and shareholders' equity	$ 1,822,262	$ 1,851,847

See Notes to Consolidated Financial Statements

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Piper Jaffray Companies
Consolidated Statements of Operations
(Unaudited)

(Amounts in thousands, except per share data)	Three Months Ended March 31, 2007	2006
Revenues:		
Investment banking	**$ 83,733**	$ 70,481
Institutional brokerage	**41,928**	44,661
Interest	**17,410**	14,685
Other income	**581**	13,285
Total revenues	**143,652**	143,112
Interest expense	**6,702**	8,153
Net revenues	**136,950**	134,959
Non-interest expenses:		
Compensation and benefits	**80,116**	72,924
Occupancy and equipment	**7,722**	8,109
Communications	**6,259**	5,383
Floor brokerage and clearance	**3,515**	2,675
Marketing and business development	**5,681**	5,179
Outside services	**7,317**	6,292
Cash award program	**356**	1,275
Other operating expenses	**3,400**	4,437
Total non-interest expenses	**114,366**	106,274
Income from continuing operations before income tax expense	**22,584**	28,685
Income tax expense	**7,862**	9,979
Net income from continuing operations	**14,722**	18,706
Discontinued operations:		
Income/(loss) from discontinued operations, net of tax	**(1,304)**	5,151
Net income	**$ 13,418**	$ 23,857
Earnings per basic common share		
Income from continuing operations	**$ 0.86**	$ 1.01
Income/(loss) from discontinued operations	**(0.08)**	0.28
Earnings per basic common share	**$ 0.79**	$ 1.29
Earnings per diluted common share		
Income from continuing operations	**$ 0.82**	$ 0.98
Income/(loss) from discontinued operations	**(0.07)**	0.27
Earnings per diluted common share	**$ 0.74**	$ 1.25
Weighted average number of common shares outstanding		
Basic	**17,071**	18,462
Diluted	**18,018**	19,146

See Notes to Consolidated Financial Statements

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Piper Jaffray Companies
Consolidated Statements of Cash Flows
(Unaudited)

(Amounts in thousands)	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Operating Activities:		
Net income	**$ 13,418**	$ 23,857
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	**2,158**	4,741
Deferred income taxes	**8,061**	2,705
Gain on disposal of fixed assets	**(34)**	—
Stock-based compensation	**5,477**	6,530
Amortization of intangible assets	**400**	400
Decrease (increase) in operating assets:		
Cash and cash equivalents segregated for regulatory purposes	**(10,000)**	—
Receivables:		
Customers	**9,712**	5,139
Brokers, dealers and clearing organizations	**208,103**	85,357
Deposits with clearing organizations	**(3,307)**	9,546
Securities purchased under agreements to resell	**(43,288)**	(45,483)
Net trading securities owned	**(69,590)**	(61,546)
Other receivables	**3,957**	(11,052)
Other assets	**(12,890)**	(16,791)
Increase (decrease) in operating liabilities:		
Payables:		
Customers	**(26,792)**	(1,462)
Checks and drafts	**(5,509)**	(5,390)
Brokers, dealers and clearing organizations	**(174,980)**	(9,271)
Securities sold under agreements to repurchase	**6,844**	943
Accrued compensation	**(106,369)**	(66,365)
Other liabilities and accrued expenses	**(5,437)**	8,308
Assets held for sale	**—**	45,086
Liabilities held for sale	**—**	(58,182)
Net cash used in operating activities	**(200,066)**	(82,930)
Investing Activities:		
Purchases of fixed assets, net	**(3,165)**	(4,912)
Net cash used in investing activities	**(3,165)**	(4,912)
Financing Activities:		
Increase (decrease) in securities loaned	**7,410**	(6,059)
Increase (decrease) in securities sold under agreements to repurchase	**212,085**	(27,316)
Increase in short-term bank financing	**—**	102,000
Repurchase of common stock	**(10,000)**	—
Excess tax benefits from stock-based compensation	**1,911**	—
Proceeds from stock option transactions	**2,062**	—
Net cash provided by financing activities	**213,468**	68,625
Currency adjustment:		
Effect of exchange rate changes on cash	**(256)**	175
Net increase (decrease) in cash and cash equivalents	**9,981**	(19,042)
Cash and cash equivalents at beginning of period	**39,903**	60,869

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	2007	2006
Cash and cash equivalents at end of period	**$ 49,884**	$ 41,827
Supplemental disclosure of cash flow information -		
Cash paid during the period for:		
Interest	**$ 6,226**	$ 10,511
Income taxes	**$ 1,336**	$ 2,329
Noncash financing activities -		
Issuance of common stock for retirement plan obligations:		
8,619 shares and 190,966 shares for the three months ended March 31, 2007 and 2006, respectively	**$ 598**	$ 9,013

See Notes to Consolidated Financial Statements

Source: PIPER JAFFRAY COMPANIES, 10-Q, May 04, 2007 Powered by Morningstar® Document Research℠

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; and other immaterial subsidiaries. Piper Jaffray Companies and its subsidiaries (collectively, the "Company") operate as one reporting segment providing investment banking services and institutional sales, trading and research 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.

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.

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.

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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. 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.

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 $1.3 million for the three months ended March 31, 2007 related to additional litigation-related expenses, occupancy restructuring costs and costs related to decommissioning a PCS-oriented back office system. The Company expects to incur additional discontinued operations costs in 2007 as the Company converts from a PCS-oriented back office system to a capital markets back office system. In addition, 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.

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 12 for additional information regarding the Company's restructuring activities.

Note 5 *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. The Company also enters into interest rate swap agreements to manage interest rate exposure associated with holding residual interest securities from its tender option bond program. As of March 31, 2007 and December 31, 2006, the Company was counterparty to notional/contract amounts of $6.3 billion and $5.8 billion, respectively, of derivative instruments.

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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 $19.8 million and $19.7 million as of March 31, 2007 and December 31, 2006, respectively.

Note 6 *Securitizations*

In connection with its tender option bond program, the Company securitizes highly rated municipal bonds. At March 31, 2007 and December 31, 2006, the Company had $277.7 million and $279.2 million, respectively, 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 $8.7 million and $8.1 million at March 31, 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 March 31, 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.

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

	Three Months Ended: March 31,	
(Amounts in thousands)	**2007**	2006
Proceeds from new securitizations	**$ —**	$7,578
Remarketing fees received	**37**	38
Cash flows received on retained interests	**2,083**	2,527

Three securitization transactions were designed such that they did not meet the asset sale requirements of SFAS 140, and as a result the Company has consolidated these trusts. As a result, the Company recorded an asset for the underlying bonds of $49.7 million and $51.2 million as of March 31, 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 March 31, 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 residual interest securities from its securitizations, which have been recorded at fair value and resulted in a liability of approximately $6.5 million and $5.7 million at March 31, 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 March 31, 2007 was $250.2 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 $262.0 million at March 31, 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 guarantee has been recorded in the accompanying consolidated financial statements.

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Note 7 *Receivables from and Payables to Brokers, Dealers and Clearing Organizations*

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

(Amounts in thousands)	**March 31, 2007**	December 31, 2006
Receivable arising from unsettled securities transactions, net	**$ —**	$ 18,233
Deposits paid for securities borrowed	**59,852**	271,028
Receivable from clearing organizations	**26,431**	6,811
Securities failed to deliver	**8,464**	1,674
Other	**9,898**	15,128
	$ 104,645	$ 312,874

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

(Amounts in thousands)	**March 31, 2007**	December 31, 2006
Payable arising from unsettled securities transactions, net	**$ 16,336**	$ —
Deposits received for securities loaned	**7,410**	189,214
Payable to clearing organizations	**12,404**	17,140
Securities failed to receive	**7,149**	4,531
Other	**23**	70
	$ 43,322	$ 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.

Source: PIPER JAFFRAY COMPANIES, 10-Q, May 04, 2007 Powered by Morningstar® Document Research℠

Note 8 *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:

(Amounts in thousands)	**March 31, 2007**	December 31, 2006
Owned:		
Corporate securities:		
Equity securities	**$ 12,842**	$ 14,163
Convertible securities	**75,248**	59,118
Fixed income securities	**219,624**	235,120
Asset-backed securities	**199,941**	158,108
U.S. government securities	**17,240**	10,715
Municipal securities	**441,498**	364,160
Other	**26,181**	25,142
	$ 992,574	$ 866,526
Sold, but not yet purchased:		
Corporate securities:		
Equity securities	**$ 40,998**	$ 31,452
Convertible securities	**1,583**	2,543
Fixed income securities	**13,729**	16,378
Asset-backed securities	**129,187**	51,001
U.S. government securities	**80,935**	109,719
Municipal securities	**—**	5
Other	**7,570**	6,486
	$ 274,002	$ 217,584

At March 31, 2007 and December 31, 2006, trading securities owned in the amount of $301.8 million and $89.8 million, respectively, had been pledged as collateral for the Company's secured borrowings, repurchase agreements 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.

Source: PIPER JAFFRAY COMPANIES, 10-Q, May 04, 2007 Powered by Morningstar® Document Research℠

Note 9 *Goodwill and Intangible Assets*

The following table presents the changes in the carrying value of goodwill and intangible assets for the three months ended March 31, 2007:

(Amounts in thousands)	
Goodwill	
Balance at December 31, 2006	$231,567
Goodwill acquired	—
Impairment losses	—
Balance at March 31, 2007	$231,567

(Amounts in thousands)	
Intangible assets	
Balance at December 31, 2006	$ 1,467
Intangible assets acquired	—
Amortization of intangible assets	(400)
Impairment losses	—
Balance at March 31, 2007	$ 1,067

Note 10 *Financing*

The Company had uncommitted credit agreements with banks totaling $675 million at March 31, 2007, comprised of $555 million in discretionary secured lines under which no amount was outstanding at March 31, 2007 and December 31, 2006, and $120 million in discretionary unsecured lines under which no amount was outstanding at March 31, 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 March 31, 2007 and December 31, 2006, the weighted average interest rate on borrowings was 5.68 percent and 5.72 percent, respectively. At March 31, 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 11 *Legal Contingencies*

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

The Company has established reserves for potential losses that are probable and reasonably estimable that may result from pending and potential complaints, legal actions, investigations and proceedings. In addition to the Company's established reserves, U.S. Bancorp, from whom the Company spun-off from 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 March 31, 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 loss 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.

Source: PIPER JAFFRAY COMPANIES, 10-Q, May 04, 2007 Powered by Morningstar® Document Research℠

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 12 *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.

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 have received a severance package. In addition, the Company has 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 among other things 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 three months ended March 31, 2007 the Company incurred $0.4 million of expense to revise occupancy restructuring estimates.

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

(Amounts in thousands)	PCS Restructuring
Balance at December 31, 2006	$ 28,583
Provision charged to discontinued operations	375
Cash outlays	(6,238)
Noncash write-downs	(291)
Balance at March 31, 2007	$ 22,429

Note 13 *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 three months ended March 31, 2007, the Company repurchased 158,687 shares of the Company's common stock at an average price of $63.02 per share for an aggregate purchase price of $10 million. The Company has $70.0 million remaining under this authorization.

Issuance of Shares

During the three months ended March 31, 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 223,395 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").

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Note 14 *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:

(Amounts in thousands, except per share data)	Three Months Ended: March 31, 2007	2006
Net income	**$ 13,418**	$ 23,857
Shares for basic and diluted calculations:		
Average shares used in basic computation	**17,071**	18,462
Stock options	**131**	14
Restricted stock	**816**	670
Average shares used in diluted computation	**18,018**	19,146
Earnings per share:		
Basic	**$ 0.79**	$ 1.29
Diluted	**$ 0.74**	$ 1.25

Note 15 *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.

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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 $5.4 million and $4.7 million for the three months ended March 31, 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 $2.1 million and $1.8 million for the three months ended March 31, 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 using 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 based on the U.S. treasury bill rate with a maturity equal to the expected life of the option. The dividend yield assumption is based on the assumed dividend payout over the expected life of the option. The expected volatility assumption for 2007 grants is based on a combination of Company historical data and industry comparisons. The Company has only been a publicly traded company for approximately 39 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 three months ended March 31:

	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 Company's stock options outstanding for the three months ended March 31, 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	(44,106)	46.86		
Canceled	(2,327)	39.62		
March 31, 2007	499,389	$44.86	7.8	$ 8,529,564
Options exercisable at March 31, 2007	191,936	$46.37	7.2	$ 2,988,444

As of March 31, 2007, there was $2.5 million of total unrecognized compensation cost related to stock options expected to be recognized over a weighted average period of 1.82 years.

Cash received from option exercises for the three months ended March 31, 2007 was $2.1 million. The tax benefit realized for the tax deduction from option exercises totaled $0.8 million for the three months ended March 31, 2007. There were no option exercises for the three months ended March 31, 2006.

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The following table summarizes the Company's nonvested restricted stock for the three months ended March 31, 2007:

	Nonvested Restricted Stock	Weighted Average Grant Date Fair Value
December 31, 2006	1,556,801	$43.81
Granted	604,958	70.13
Vested	(285,220)	48.67
Canceled	(56,156)	43.89
March 31, 2007	1,820,383	$51.79

As of March 31, 2007, there was $64.9 million of total unrecognized compensation cost related to restricted stock expected to be recognized over a weighted average period of 2.41 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 16 *Net Capital Requirements and Other Regulatory Matters*

As a registered broker dealer and member firm of the New York Stock Exchange ("NYSE"), Piper Jaffray is subject to the uniform net capital rule of the SEC and the net capital rule of the 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 March 31, 2007, net capital calculated under the SEC rule was $347.7 million, or 615.2 percent of aggregate debit balances; this amount exceeded the minimum net capital required under the SEC rule by $346.6 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 March 31, 2007, Piper Jaffray Ltd. was in compliance with the capital requirements of the FSA.

Note 17 *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 in 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 three month period ended March 31, 2007.

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Note 18 *Definitive Agreement to Acquire Fiduciary Asset Management LLC*

On April 13, 2007, the Company announced a definitive agreement to acquire Fiduciary Asset Management LLC ("FAMCO"), a St. Louis-based investment management firm, for approximately $66.0 million in cash upon closing and future cash consideration based on financial performance. The Company currently expects the transaction to close in the third quarter of 2007, subject to certain regulatory approvals and customary closing conditions, including the receipt of third-party consents. The allocation of the purchase price and determination of intangible assets and goodwill will be made once the transaction closes. For more information regarding the Company's acquisition of FAMCO, please refer to the Company's Form 8-K, filed with the SEC on April 13, 2007.

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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 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 and profits and losses from trading activities related to these securities inventories.

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 first quarter of 2007, discontinued operations recorded a loss of $1.3 million, which included costs for PCS litigation-related expenses, restructuring charges that were higher than originally estimated and costs related to decommissioning a PCS-oriented back office system. We expect to incur additional costs in the second and third quarters of 2007 related to decommissioning the PCS-oriented back office system. Costs associated with implementing a new back office system to support our capital markets business will be recorded in continuing operations. See Notes 4 and 12 to our unaudited consolidated financial statements for a further discussion of our discontinued operations and restructuring.

As part of our growth strategy and our efforts to diversify our revenues following the sale of our PCS branch network, we announced on April 13, 2007 the signing of a definitive agreement to acquire Fiduciary Asset Management, LLC ("FAMCO") a St. Louis-based investment management firm. This acquisition will allow us to enter the investment management business and redeploy capital from the sale of the PCS business. We currently expect the transaction to close in the third quarter of 2007, subject to certain regulatory approvals and customary closing conditions, including the receipt of third-party consents.

We plan to continue our focus on the growth of our existing capital markets businesses through expansion of our sector expertise, product depth and geographic reach. In addition, as opportunities arise we intend to use our capital to a greater extent to facilitate customer activity and engage in principal activities that leverage our expertise. Our principal activities will result in greater commitments of capital on our own behalf, and may include, among other things, proprietary positions in equity or debt securities of public and private companies. Our 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 from the growth initiatives.

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RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2007

Net revenues from continuing operations for the three months ended March 31, 2007 were $137.0 million. For the three months ended March 31, 2007, our net income, including continuing and discontinued operations, was $13.4 million, or $0.74 per diluted share, down from net income of $23.9 million, or $1.25 per diluted share, for the prior-year period. For the three months ended March 31, 2007, net income from continuing operations totaled $14.7 million, or $0.82 per diluted share, down from $18.7 million, or $0.98 per diluted share, for the corresponding period in 2006. Net income from continuing operations in the first quarter of 2006 included a gain of $6.6 million after tax, or $0.35 per diluted share, related to our ownership of two seats on the New York Stock Exchange ("NYSE").

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, and the demand for investment banking services as reflected by the number and size of equity and debt financings and merger and acquisition transactions.

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.

Source: PIPER JAFFRAY COMPANIES, 10-Q, May 04, 2007 Powered by Morningstar® Document Research℠

Results of Operations

FINANCIAL SUMMARY

The following table provides a summary of the results of our operations and the results of our operations as a percentage of net revenues for the periods indicated.

(Amounts in thousands)	Results of Operations For the Three Months Ended March 31, 2007	2006	2007 v2006	Results of Operations as a Percentage of Net Revenues For the Three Months Ended March 31, 2007	2006
Revenues:					
Investment banking	$ 83,733	$ 70,481	18.8%	61.1%	52.2%
Institutional brokerage	41,928	44,661	(6.1)	30.6	33.1
Interest	17,410	14,685	18.6	12.7	10.9
Other income	581	13,285	(95.6)	0.5	9.8
Total revenues	143,652	143,112	0.4	104.9	106.0
Interest expense	6,702	8,153	(17.8)	4.9	6.0
Net revenues	136,950	134,959	1.5	100.0	100.0
Non-interest expenses:					
Compensation and benefits	80,116	72,924	9.9	58.5	54.0
Occupancy and equipment	7,722	8,109	(4.8)	5.6	6.0
Communications	6,259	5,383	16.3	4.6	4.0
Floor brokerage and clearance	3,515	2,675	31.4	2.6	2.0
Marketing and business development	5,681	5,179	9.7	4.1	3.8
Outside services	7,317	6,292	16.3	5.3	4.7
Cash award program	356	1,275	(72.1)	0.3	0.9
Other operating expenses	3,400	4,437	(23.4)	2.5	3.3
Total non-interest expenses	114,366	106,274	7.6	83.5	78.7
Income from continuing operations before tax expense	22,584	28,685	(21.3)	16.5	21.3
Income tax expense	7,862	9,979	(21.2)	5.8	7.4
Net income from continuing operations	14,722	18,706	(21.3)	10.7	13.9
Discontinued operations:					
Income/(loss) from discontinued operations, net of tax	(1,304)	5,151	N/M	N/M	3.8
Net income	$ 13,418	$ 23,857	(43.8)%	9.8%	17.7%

N/M — Not Meaningful

For the three months ended March 31, 2007, net income, including continuing and discontinued operations, totaled $13.4 million. Net revenues from continuing operations increased slightly to $137.0 million for the first quarter of 2007. For the three months ended March 31, 2007, investment banking revenues increased 18.8 percent to $83.7 million, compared with revenues of $70.5 million in the prior-year period. All investment banking businesses contributed to this increase. Institutional brokerage revenues decreased 6.1 percent to $41.9 million, compared with $44.7 million in the corresponding period in the prior year, due to lower equity trading volumes and lower fixed income trading gains. In the first quarter of 2007, net interest income increased to $10.7 million, compared with $6.5 million in the first quarter of 2006. The increase was driven by two primary factors. First, in the third quarter of 2006, we repaid $180 million in subordinated debt, resulting in lower interest expense in the first quarter of 2007. Second, the impact of higher short-term interest rates on net inventories and other net earning assets resulted in higher interest income. In the first quarter of 2007, other income decreased to $0.6 million, compared with $13.3 million in the prior-year period, which included a $10.2 million gain related to our ownership of two seats on the NYSE that were exchanged for cash and restricted shares of common stock of NYSE Group, Inc. Non-interest expenses increased to $114.4 million for the three months ended March 31, 2007, from $106.3 million in the

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corresponding period in the prior year. This increase was primarily attributable to increased compensation and benefits expenses due to higher investment banking revenues.

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CONSOLIDATED NON-INTEREST EXPENSES

Compensation and Benefits - Compensation and benefits expenses, which are the largest component of our expenses, include salaries, bonuses, commissions, benefits, 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 March 31, 2007, compensation and benefits expenses increased 9.9 percent to $80.1 million, from $72.9 million in the corresponding period in 2006. This increase was due to higher variable compensation costs resulting from higher investment banking revenues. Compensation and benefits expenses as a percentage of net revenues increased to 58.5 percent for the first quarter of 2007, compared with 54.0 percent for the first quarter of 2006. The compensation and benefits ratio was lower in the year-ago period due to the gain related to our two seats on the NYSE.

Occupancy and Equipment - In the first quarter of 2007, occupancy and equipment expenses were $7.7 million, compared with $8.1 million for the corresponding period in 2006. In the first quarter of 2006, we wrote-off $0.4 million in fixed assets in connection with the modification of our fixed income trading system.

Communications - Communication expenses include costs for telecommunication and data communication, primarily consisting of expense for obtaining third-party market data information. For the three months ended March 31, 2007, communication expenses were $6.3 million, an increase of 16.3 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 March 31, 2007, floor brokerage and clearance expenses were $3.5 million, compared with $2.7 million for the three months ended March 31, 2006. This increase was a result of 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 first quarter of 2007, marketing and business development expenses were $5.7 million, compared with $5.2 million in the first quarter of 2006, an increase of 9.7 percent. This increase was driven by higher travel costs.

Outside Services - Outside services expenses include securities processing expenses, outsourced technology functions, outside legal fees and other professional fees. Outside services expenses increased to $7.3 million in the first quarter of 2007, compared with $6.3 million for the prior-year period. This increase was due to higher outside legal fees and increased trading system expense related to volume increases in our European business. We anticipate incurring additional expenses during 2007 associated with implementing a new back-office system to support our capital markets business.

Cash Award Program - In connection with 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 March 31, 2007, cash awards expense decreased to $0.4 million, compared with $1.3 million in the prior-year period. The sale of our PCS branch network resulted in the forfeiture and accelerated vesting of approximately half of our cash awards and as a result, our ongoing cash award expense decreased. We anticipate incurring approximately $1.1 million of cash award expense within continuing operations for the remainder 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 23.4 percent to $3.4 million in the first quarter of 2007, compared with $4.4 million in first quarter of 2006, primarily due to a decline in litigation-related expense.

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Income Taxes - For the three months ended March 31, 2007, our provision for income taxes from continuing operations was $7.9 million, equating to an effective tax rate of 34.8 percent. For the three months ended March 31, 2006, income taxes from continuing operations were $10.0 million, equating to an effective tax rate of 34.8 percent.

NET REVENUES FROM CONTINUING OPERATIONS (DETAIL)

	For the Three Months Ended March 31,		2007 vs.
(Dollars in thousands)	2007	2006	2006
Net revenues:			
Investment banking			
Financing			
Equities	$ 40,710	$ 32,787	24.2%
Fixed income	20,026	16,453	21.7
Advisory services	24,876	22,591	10.1
Total investment banking	85,612	71,831	19.2
Institutional sales and trading			
Equities	31,110	32,161	(3.3)
Fixed income	19,133	20,173	(5.2)
Total institutional sales and trading	50,243	52,334	(4.0)
Other income	1,095	10,794	(89.9)
Total net revenues	$ 136,950	$ 134,959	1.5%

Investment banking revenues comprise all the revenues generated through financing and advisory services activities including derivative activities that relate to fixed income 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 March 31, 2007, investment banking revenues increased 19.2 percent to $85.6 million, compared with $71.8 million in the corresponding period in the prior year. Equity financing revenues increased 24.2 percent to $40.7 million in the first quarter of 2007, due to an increase in convertible revenues resulting from a higher number of completed transactions and increased revenue per transaction. We completed six convertible financings during the first quarter of 2007, compared with two convertible financings in the prior-year period. Equity financing revenues also increased due to our London office, which completed four equity financings in the first quarter of 2007, compared with one equity financing in the prior-year period. Fixed income financings revenues in the first quarter of 2007 increased 21.7 percent to $20.0 million driven by increased high-yield and structured products revenues. In addition, public finance revenues increased as we underwrote 94 municipal issues with a par value of $1.6 billion during the first three months of 2007, compared with 90 municipal issues with a par value of $1.4 billion in the prior-year period. Advisory services revenues increased 10.1 percent to $24.9 million in the first quarter of 2007, as higher average revenues per transaction more than offset the decline in completed transactions. We completed 8 mergers and acquisitions transactions valued at $2.0 billion during the first quarter of 2007, compared with 14 deals valued at $2.2 billion in the prior-year period.

Institutional sales and trading revenues comprise all the revenues generated through trading activities, primarily the facilitation of 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 in sales and trading vary from quarter to quarter with changes in trading margins, trading gains and losses, net interest spreads, trading volumes and the timing of transactions as a result of 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.

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For the three months ended March 31, 2007, institutional sales and trading revenues decreased 4.0 percent to $50.2 million, compared with $52.3 million for the three months ended March 31, 2006. Equity institutional sales and trading revenue decreased 3.3 percent in the first quarter of 2007, to $31.1 million due to lower volumes and pressure by institutional clients to reduce commissions in our traditional equity sales and trading business. Fixed income institutional sales and trading revenues decreased 5.2 percent to $19.1 million in the first three months of 2007 due to lower trading gains and a decline in revenues related to taxable products, offset in part by increased net interest spreads.

Other income/loss includes gains and losses from investments in private equity and venture capital funds as well as other firm investments and management fees from our private capital business. In the first quarter of 2007, other income totaled $1.1 million, compared with $10.8 million in first three months of 2006. In the first quarter of 2006, we recorded a $10.2 million gain related to our ownership of two seats on the NYSE, which were exchanged for cash and restricted shares of common stock of NYSE Group, Inc.

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 first quarter of 2007, discontinued operations recorded a loss of $1.3 million, which included costs for additional PCS litigation-related expenses and occupancy charges that were higher than originally estimated. The loss also includes costs related to decommissioning a PCS-oriented back office system. We expect to incur additional costs in the second and third quarters of 2007 related to decommissioning this system. In addition, we 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. See Note 4 to our unaudited consolidated financial statements for further discussion of our discontinued operations.

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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, among others, 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, including 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.

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.

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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.

March 31, 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	$957,227	$266,432
Fair value of securities excluding derivatives, as determined by management	9,166	—
Fair value of derivatives, as determined by management	26,181	7,570
	$992,574	$274,002

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 amount 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, 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 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. At March 31, 2007, we had goodwill of $231.6 million, principally as a result of the 1998 acquisition of our predecessor, Piper Jaffray Companies Inc., and its subsidiaries by U.S. Bancorp.

Under Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," we are required to perform impairment tests of our goodwill and 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 operating segment 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.

Source: PIPER JAFFRAY COMPANIES, 10-Q, May 04, 2007 Powered by Morningstar® Document Research℠

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 segment, 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 based on the assumed dividend payout over the expected life of the option. The expected volatility assumption for grants subsequent to December 31, 2006 is based on a combination of our historical data and industry comparisons, as we have limited information on which to base our volatility estimates because we have only been a public company since the beginning of 2004. The expected volatility assumption for grants prior to December 31, 2006 were based solely on industry comparisons. The expected life of options assumption is based on 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 lack of 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 15 to our unaudited consolidated financial statements.

Source: PIPER JAFFRAY COMPANIES, 10-Q, May 04, 2007 Powered by Morningstar® Document Research℠

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. The number of these legal proceedings has increased in recent years. 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 March 31, 2007, approximately $13.2 million of the indemnification remained available.

As part of our asset purchase agreement with UBS on August 14, 2006, for the sale of our 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.

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. 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, bank lines of credit and proceeds from securities sold under agreements to repurchase. The fluctuations in cash flows from financing activities are directly related to daily operating activities from our various businesses.

A significant component of our employees' compensation is paid in an annual 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.

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

In connection with the sale of our PCS branch network on August 14, 2006, our board of directors authorized the repurchase of up to $180 million in common shares through December 31, 2007. We executed an accelerated share repurchase under this authorization in the amount of $100 million during 2006. During the first quarter of 2007, we repurchased 158,687 shares of outstanding common stock for an aggregate purchase price of $10.0 million under this authorization. We have $70.0 million remaining under authorization.

On April 13, 2007, we announced the signing of a definitive agreement to acquire FAMCO, a St. Louis-based investment management firm. The purchase price under the agreement is approximately $66.0 million in cash upon closing and future cash consideration based on financial performance of FAMCO in each of the 2008, 2009 and 2010 calendar years. We currently expect the transaction to close in the third quarter of 2007. We anticipate funding the purchase of FAMCO through existing funding sources.

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. Bank loans and repurchase agreements 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 $12 million in short-term bank loans and an average of $1 million in securities lending arrangements in the first quarter of 2007. This compares to an average of $16 million in short-term bank loans and an average of $235 million in securities lending arrangements in the first quarter of 2006. The reduction in customer receivable financing from the first quarter of 2006 to the first quarter of 2007 is due to the sale of PCS and the related customer margin loans, which were financed in large part by securities lending arrangements, to UBS. Average net repurchase agreements (excluding economic hedges) of $105 million and $116 million in the first 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 these sources as necessary. On March 31, 2007, we had no outstanding short-term bank financing.

As of March 31, 2007, we had uncommitted credit agreements with banks totaling $675 million, comprised of $555 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 NYSE, 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 March 31, 2007, net capital under the SEC's Uniform Net Capital Rule was $347.7 million or 615.2 percent of aggregate debit balances, and $346.6 million in excess of the minimum required net capital.

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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 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 6, “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. For a complete discussion of our activities related to derivative products, see Note 5, “Derivatives,” in the notes to our unaudited consolidated financial statements.

In the third quarter of 2006, we entered into a strategic relationship with CIT Group (“CIT”) to provide clients with debt solutions, including senior secured and unsecured debt, second lien facilities, subordinated financings and mezzanine loans. Our strategic relationship with CIT offers us the possibility of making commitments of capital alongside CIT in connection with offering debt solutions to our clients as opportunities arise.

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.

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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 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. 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.

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. 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.

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

(Dollars in thousands)	**At March 31, 2007**	At December 31, 2006
Interest Rate Risk	**$ 239**	$ 281
Equity Price Risk	**286**	261
Aggregate Undiversified Risk	**525**	542
Diversification Benefit	**(107)**	(112)
Aggregate Diversified Value-at-Risk	**$ 418**	$ 430

The table below illustrates the daily high, low and average value-at-risk calculated for each component of market risk during the three months ended March 31, 2007 and the year ended December 31, 2006, respectively.

For the Three Months Ended March 31, 2007

(Dollars in thousands)	**High**	**Low**	**Average**
Interest Rate Risk	$ 279	$ 234	$ 263
Equity Price Risk	286	257	272
Aggregate Undiversified Risk	562	519	536
Aggregate Diversified Value-at-Risk	439	411	422

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

We use model-based VaR simulations for managing risk on a daily basis. Model-based VaR derived from simulation has 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. 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. In addition, different VaR methodologies and distribution assumptions could produce materially different VaR numbers. Changes in VaR between reporting periods are generally due to changes in levels of risk exposure, volatilities and/or correlations among asset classes.

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

(Dollars in thousands)	**At March 31, 2007**	At December 31, 2006
Interest Rate Risk	**$ 679**	$ 574
Equity Price Risk	**171**	177
Aggregate Undiversified Risk	**850**	751
Diversification Benefit	**(159)**	(150)
Aggregate Diversified Value-at-Risk	**$ 691**	$ 601

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

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 first 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.

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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.

Initial Public Offering Litigation

On December 5, 2006, the U.S. Court of Appeals for the Second Circuit issued its decision in re Initial Public Offering Securities Litigation, No 05-3349-CV (Dec. 5, 2006) vacating the class certifications and remanding for further proceedings. Plaintiffs petitioned the Second Circuit for rehearing and rehearing en banc of its decision, and the Second Circuit denied the petition for rehearing on April 6, 2007.

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.

The following information updates the risk factors set forth in our Annual Report on Form 10-K.

There are risks associated with the pending acquisition of FAMCO.

We announced the signing of a definitive agreement to acquire Fiduciary Asset Management LLC (“FAMCO”), a St. Louis-based investment management firm, on April 13, 2007. There are certain risks associated with this acquisition, including the following: the transaction may not be completed or completed within the expected timeframe, costs or difficulties relating to the integration of the FAMCO and Piper Jaffray businesses may be greater than expected and may adversely affect our results of operations and financial condition, and the expected benefits of the FAMCO acquisition and entering the asset management business, including increased profitability and shareholder returns, may take longer than anticipated to achieve and may not be achieved in their entirety or at all.

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 March 31, 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 (January 1, 2007 to January 31, 2007)	2,302(2)	$71.51	0	
Month #2 (February 1, 2007 to February 28, 2007)	126,390(3)	$67.04	25,250	
Month #3 (March 1, 2007 to March 31, 2007)	133,437(4)	$62.19	133,437	
Total	262,129	$64.61	158,687	$70.0 million

(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. We have $70 million of repurchase authorization remaining, and we expect to conduct open market share repurchases under this authorization through December 31, 2007.

(2) Consists of shares of common stock withheld from recipients of restricted stock to pay taxes upon the vesting of the restricted stock.

(3) Consists of 25,250 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 $67.39, and 101,140 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 $66.95.

(4) Consists of shares of common stock repurchased on the open market pursuant to a 10b5-1 plan established with an independent agent.

ITEM 6. EXHIBITS

Exhibit Number	Description	Method of Filing
2.1	Agreement of Purchase and Sale dated April 12, 2007 among Piper Jaffray Companies, 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)
10.1	Piper Jaffray Companies Deferred Compensation Plan for Non-Employee Directors (As Amended and Restated Effective April 1, 2007).	Filed herewith
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.	Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.	Filed herewith
32.1	Certifications furnished pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith

(1) Incorporated herein by reference to Item 2.1 of the Company’s Form 8-K, filed with the Commission on April 13, 2007.

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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 May 2, 2007.

PIPER JAFFRAY COMPANIES

By	/s/ Andrew S. Duff
Its	Chairman and CEO
By	/s/ Thomas P. Schnettler
Its	Vice Chairman and Chief Financial Officer

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Exhibit 10.1

PIPER JAFFRAY COMPANIES
DEFERRED COMPENSATION PLAN
FOR NON-EMPLOYEE DIRECTORS
(As Amended and Restated Effective April 1, 2007)

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PIPER JAFFRAY COMPANIES
DEFERRED COMPENSATION PLAN
FOR NON-EMPLOYEE DIRECTORS
(As Amended and Restated Effective April 1, 2007)

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PIPER JAFFRAY COMPANIES
DEFERRED COMPENSATION PLAN
FOR NON-EMPLOYEE DIRECTORS
(As Amended and Restated Effective April 1, 2007)

SECTION 1. Purpose and History

The purpose of the Plan is to promote the interests of the Company and its stockholders by facilitating increased equity ownership in the Company by its Non-Employee Directors. The Plan was originally adopted effective January 1, 2005. It is hereby amended and restated effective April 1, 2007.

SECTION 2. Definitions

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

2.01. "Account" means the separate recordkeeping account (unfunded and unsecured) maintained for each Participant in connection with his or her participation in the Plan. An Account may be either a "Fee Account" or a "Grant Account."

2.02. "Beneficiary" or "Beneficiaries" means the person or persons designated as such under Section 5.03.

2.03. "Board" means the Board of Directors of the Company.

2.04. "Committee" means a committee of Directors designated by the Board to exercise the Company's administrative authority under the Plan. Initially, the Committee shall be the Compensation Committee of the Board.

2.05. "Company" means Piper Jaffray Companies, a Delaware corporation.

2.06. "Director" means a member of the Board.

2.07. "Effective Date" means April 1, 2007.

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

2.09. "Fee" means the dollar amount of the cash fee payable to a Non-Employee Director for service as a Non-Employee Director.

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2.10 “Grant” means the Shares awarded to a Non-Employee Director for service as a Non-Employee Director.

2.11. “Non-Employee Director” means a Director who is not an employee of the Company and its subsidiaries.

2.12. “Participant” means an individual described as such in Section 3.01.

2.13. “Plan” means this Piper Jaffray Companies Deferred Compensation Plan for Non-Employee Directors, as set forth herein and as hereafter amended from time to time.

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

2.15. “Year” means the calendar year.

SECTION 3. Participation

3.01. Eligibility for Participation. An individual shall become eligible to participate in the Plan on the earliest date (on or after the Effective Date) on which he or she is a Non-Employee Director, and a Non-Employee Director shall become a Participant in the Plan on the earliest date (on or after the Effective Date) on which he or she has elected to defer Fees and/or Grants under the Plan.

3.02. Election to Defer Fees. Prior to the first day of any Year beginning on or after the Effective Date, a Non-Employee Director may elect to have a percentage (up to 100%) of the Fee payable to the Non-Employee Director with respect to that Year deferred under the Plan rather than being paid in cash. The Fee actually payable for the Year to a Non-Employee Director who makes a deferral election under the Plan shall be reduced by the percentage so elected, subject to Section 3.04.

3.03. Election to Defer Grants.

(a) Shares Awarded in 2007. Any Non-Employee Director who was eligible to participate in the Plan before 2007 and who receives a Grant in 2007 will be deemed to have elected to defer 100% of such Grant. Any individual who first becomes a Non-Employee Director in 2007 may file an election under the Plan with respect to the 2007 Grant, as provided in Section 3.04(a).

(b) Shares Awarded in 2008 and Future Years. Prior to the first day of any Year beginning on or after January 1, 2008, a Non-Employee Director may elect to have a percentage (up to 100%) of the Grant made to the Non-Employee Director with respect to that Year deferred under the Plan rather than being issued in Shares. Any election of a percentage that would result in a fractional Share being deferred will be automatically rounded up to the next whole number, so that only full Shares will be deferred. The Grant actually issued for the Year to a Non-Employee Director who makes a deferral election under the Plan shall be reduced by the percentage so elected, subject to Section 3.04.

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3.04. Rules Applicable to All Deferral Elections.

(a) Elections for a particular Year must be filed by the preceding December 31. However, an election by an individual who first becomes a Non-Employee Director during a Year may be filed on the date he or she becomes a Non-Employee Director and shall apply to the Fee payable and/or Grant awarded to the Non-Employee Director with respect to that Year.

(b) The election filed prior to the beginning of each Year shall apply to the Fee payable and/or Grant awarded during that Year.

(c) Elections shall be made on forms specified by the Company for purposes of the Plan.

(d) The Non-Employee Director must file a separate election with the Company for each Year for which deferrals are to be made under the Plan. An election for a Year shall become irrevocable on the first day of that Year, or for an individual who first becomes a Non-Employee Director during a Year, an election for the initial Year shall become irrevocable on the date the individual becomes a Non-Employee Director. Elections will not carry over into subsequent Years.

3.05. Duration of Participation. A Participant shall continue to be eligible to make elections under Sections 3.02 and 3.03 until the date on which the Participant ceases to be a Non-Employee Director. No deferrals under Sections 3.02 and 3.03 shall be made from any Fee that is payable or any Grant that is awarded to the Participant for a Year beginning after the date he or she ceases to be a Non-Employee Director. However, an individual shall continue to be a Participant for purposes of the provisions of the Plan other than Sections 3.02 and 3.03 until the date his or her benefit under the Plan has been paid.

SECTION 4. Accounts

4.01. Separate Accounts. The Company shall establish and maintain a separate Fee Account and/or a separate Grant Account for each Participant. The Accounts shall be for recordkeeping purposes only and shall not represent a trust fund or other segregation of assets for the benefit of the Participant.

4.02. Investment of Accounts. Each Participant's Account shall be deemed to be invested in Shares, as specified below:

(a) Deferred Fees. The Fee that the Participant has elected to defer under the Plan shall be applied to acquire Shares for the Fee Account as of the date that the Fee would otherwise have been paid to the Participant in cash. The number of Shares credited to the Fee Account shall be determined by dividing the amount of the deferred Fee by the Fair Market Value of a Share as of the Fee payment date.

(b) Deferred Grants. The number of Shares of the Grant that the Participant has elected to defer under the Plan shall be credited to the Grant Account as of the date the Shares would otherwise have been issued to the Participant under the Grant.

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(c) Dividends. Any cash dividend on Shares shall be applied to acquire additional Shares for the Account as of the dividend payment date. The number of Shares credited to the Account shall be determined by dividing the amount of the dividend payable on the number of Shares credited to the Account on the dividend record date by the Fair Market Value of a Share as of the dividend payment date.

(d) Adjustments. In the event of any change in corporate capitalization (including, but not limited to, a change in the number of Shares outstanding), such as a stock split or a corporate transaction, such as any merger, consolidation, separation, including a spin-off, or other distribution of stock or property of the Company, any reorganization, or any partial or complete liquidation of the Company, the Committee shall make such adjustments or substitution in the aggregate number and kind of Shares credited to each Participant's Account as it may determine to be appropriate in its sole discretion.

4.03. Valuation of Accounts. The Participant's Accounts shall be valued when a Plan benefit is to be paid to the Participant or his or her Beneficiary or Beneficiaries as provided in Section 5. The value of each Account shall be the Fair Market Value of the Shares credited to the Account as of the date specified in Section 5. Upon payment of the benefit, the value of the Account shall be reduced to zero.

4.04. No Use of Shares. Notwithstanding anything in the Plan to the contrary, the Company shall not reserve, repurchase or issue any Shares for or to the Participant's Accounts. Shares are credited to the Participant's Accounts solely for the recordkeeping purpose of determining the amount of benefit payable under the Plan, and the Participant's Accounts are not actually being invested in Shares.

SECTION 5. Benefits

5.01. Benefits for a Participant.

(a) Fee Account. Upon a Participant's cessation of service as a Non-Employee Director for any reason other than death, the Company shall pay the Participant's Fee Account in a single lump sum cash benefit to the Participant as soon as administratively feasible after the end of the Year in which the cessation of service occurred. The amount of the benefit shall be equal to the value of the Participant's Fee Account as of the last day of the Year in which the cessation of service occurred.

(b) Grant Account. Upon a Participant's cessation of service as a Non-Employee Director for any reason other than death, the Company shall issue to or cause to be purchased for the Participant a number of Shares equal to the full number of Shares credited to the Participant's Grant Account as of the last day of the Year in which the cessation of service occurred. Such Shares, and cash for any fractional Share, shall be distributed to the Participant as soon as administratively feasible after the end of the Year in which the cessation of service occurred.

5.02. Benefits for a Beneficiary.

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(a) Fee Account. If the Participant has an unpaid Fee Account balance at his or her death, the Company shall pay a single lump sum cash benefit to the Participant's Beneficiary or Beneficiaries as soon as administratively feasible after the end of the Year in which the Participant's death occurred. The amount of the benefit shall be equal to the value of the Participant's Fee Account as of the last day of the Year in which the Participant's death occurred.

(b) Grant Account. If the Participant has an unpaid Grant Account balance at his or her death, the Company shall issue to or cause to be purchased for the Beneficiary or Beneficiaries a number of Shares equal to the full number of Shares credited to the Participant's Grant Account as of the last day of the Year in which the Participant's death occurred. Such Shares, and cash for any fractional Share, shall be distributed to the Beneficiary or Beneficiaries as soon as administratively feasible after the end of the Year in which the Participant's death occurred.

5.03. Beneficiary Designation.

(a) Right to Designate. Each Participant may designate, upon forms to be furnished by and filed with the Company, one or more primary Beneficiaries or alternative Beneficiaries to receive all or a specified part of unpaid balance of the Participant's Accounts in the event of the Participant's death. The Participant may change or revoke any such designation from time to time without notice to or consent from any Beneficiary or spouse. No such designation, change or revocation shall be effective unless signed by the Participant and received by the Company during the Participant's lifetime.

(b) Failure of Designation. If a Participant: (i) fails to designate a Beneficiary, (ii) designates a Beneficiary and thereafter such designation is revoked without another Beneficiary being named, or (iii) designates one or more Beneficiaries and all such Beneficiaries so designated fail to survive the Participant, the unpaid balance of such Participant's Accounts, or the part thereof as to which such Participant's designation fails, as the case may be, shall be payable to the representative of the Participant's estate.

5.04. Incapacity. Every person claiming or receiving benefits under the Plan shall be conclusively presumed to be mentally competent until the date on which the Company receives a written notice in a form and manner acceptable to the Company that such person is incompetent and that a guardian, conservator or other person legally vested with the care of his or her estate has been appointed. In such event, the Committee may direct the Company to pay the benefits to such guardian, conservator or other person legally vested with the care of the person's estate and any such payments so made shall be a complete discharge of the Company to the extent so made.

5.05. Withholding and Taxes. The benefits payable under this Plan shall be subject to the deduction of any federal, state, or local income taxes or other taxes which are required to be withheld from such payments by applicable laws and regulations. The Company provides no assurances or guarantees regarding the tax treatment of amounts deferred under the Plan. Each Participant is solely responsible for any applicable taxes, penalties or interest.

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5.06. Benefits Not Transferable. No Participant or Beneficiary shall have the power to transmit, alienate, dispose of, pledge or encumber any benefit payable under the Plan before its actual payment to the Participant or Beneficiary. Any such effort by a Participant or Beneficiary to convey any interest in the Plan shall not be given effect under the Plan. No benefit payable under the Plan shall be subject to attachment, garnishment, execution following judgment or other legal process before its actual payment to the Participant or Beneficiary.

5.07. Benefits Not Secured. The rights of each Participant and Beneficiary shall be solely those of an unsecured, general creditor of the Company. No Participant or Beneficiary shall have any lien, prior claim or other security interest in the property of the Company.

5.08. Company's Obligations. The Company shall provide the benefits under the Plan. The Company's obligation may be satisfied by distributions from a trust fund created and maintained by the Company, in its sole discretion, for such purpose. However, the assets of any such trust fund shall be subject to claims by the general creditors of the Company in the event the Company is (i) unable to pay its debts as they become due, or (ii) is subject to a pending proceeding as a debtor under the United States Bankruptcy Code, or (iii) is determined to be insolvent by a federal or state regulatory agency having authority to do so.

SECTION 6. Administration

6.01. Administrative Authority.

(a) Administrator. The Company is the administrator of the Plan, with authority to control and manage the administration and operation of the Plan and to make all decisions and determinations incident thereto.

(b) Committee. Except as otherwise provided herein, action on behalf of the Company as administrator of the Plan shall be taken by the Committee.

(c) Board. Notwithstanding anything to the contrary contained herein, the Board may, at any time and from time to time, without any further action of the Committee, exercise the powers and duties of the Committee under the Plan. To the extent that any permitted action taken by the Board conflicts with action taken by the Committee, the Board action shall control.

6.02. Exercise of Authority. The Company (including any Board or Committee members acting on its behalf) may exercise its authority under the Plan in its full discretion. This discretionary authority includes, but is not limited to, the authority to establish or revise such rules and regulations as it may deem necessary or advisable for the administration of the Plan, to interpret the provisions of the Plan and all relevant documents, and to determine all factual and legal questions related to its responsibilities under the Plan (including, but not limited to, the entitlement of all persons to benefits and the amounts of their benefits). The interpretations and determinations of the Company shall be binding on all parties. It is intended that the Company's exercise of authority be given deference in all courts to the greatest extent allowed under law, and that it not be overturned or set aside by any court unless found to be arbitrary and capricious, or made in bad faith.

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6.03. Conflict of Interest. If any Board or Committee member is also a Participant in the Plan, that individual shall have no authority as such member with respect to any matter specifically affecting the Participant's individual interest under the Plan (as distinguished from the interests of all Participants and Beneficiaries or a broad class of Participants and Beneficiaries), all such authority being reserved exclusively to the other members to the exclusion of such Participant, and such Participant shall act only in the Participant's individual capacity in connection with any such matter.

SECTION 7. Amendment and Termination

7.01. Amendment. The Plan may be amended in whole or in part at any time for any reason by the Board. No amendment shall decrease the benefits under the Plan which have accrued prior to the date of such amendment.

7.02. Termination. The Board may terminate the Plan at any time. After such termination, no further amounts shall be deferred under the Plan, and the Account balances shall be paid in accordance with Section 5.

SECTION 8. General Provisions

8.01. Successors. The Plan shall be binding upon and inure to the benefit of the successors and assigns of the Company, and the Beneficiaries, personal representatives and heirs of the Participant.

8.02. Service on Board. Nothing in the Plan shall confer upon any Non-Employee Director the right to continue service as a member of the Board, nor shall it create any obligation on the part of the Board to nominate any Non-Employee Director for reelection by the Company's stockholders.

8.03. Notices. Any notice required or permitted to be given to the Company or a Participant under the Plan shall be in writing and shall be considered to have been duly given if personally delivered or sent by first class mail as follows:

(i) in the case of the Company, to the principal office of the Company, directed to the attention of the Corporate Secretary, and

(ii) in the case of the Participant, to the last known address of the Participant indicated on the records of the Company.

Such notice will be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark. Notices to the Company may be permitted by electronic communication according to specifications established by the Company.

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

8.05. Rules of Interpretation.

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

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

(c) Construed as a Whole. The provisions of the Plan shall be construed as a whole in such manner as to carry out the provisions hereof and shall not be construed separately without relation to the context.

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EXHIBIT 31.1

CERTIFICATIONS

I, Andrew S. Duff, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Piper Jaffray Companies;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 4, 2007

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

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EXHIBIT 31.2

CERTIFICATIONS

I, Thomas P. Schnettler, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Piper Jaffray Companies;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 4, 2007

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

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EXHIBIT 32.1

Certification Under Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned certifies that this periodic report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this periodic report fairly presents, in all material respects, the financial condition and results of operations of Piper Jaffray Companies.

Dated: May 4, 2007

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

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

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