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## **FORM 10-Q**

**PIPER JAFFRAY COMPANIES - PJC**

**Filed: August 03, 2007 (period: June 30, 2007)**

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

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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 June 30, 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 July 27, 2007, the registrant had 18,483,270 shares of Common Stock outstanding.

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## PART I. FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

#### Piper Jaffray Companies Consolidated Statements of Financial Condition

	<u>June 30,</u> 2007	<u>December 31,</u> 2006
	(Unaudited)	
<i>(Amounts in thousands, except share data)</i>		
<b>Assets</b>		
Cash and cash equivalents	\$ 22,624	\$ 39,903
Cash and cash equivalents segregated for regulatory purposes	25,000	25,000
Receivables:		
Customers	58,610	51,441
Brokers, dealers and clearing organizations	134,337	312,874
Deposits with clearing organizations	26,421	30,223
Securities purchased under agreements to resell	128,149	139,927
Trading securities owned	711,279	776,684
Trading securities owned and pledged as collateral	87,278	89,842
Total trading securities owned	<u>798,557</u>	<u>866,526</u>
Fixed assets (net of accumulated depreciation and amortization of \$52,008 and \$48,603, respectively)	25,958	25,289
Goodwill	231,567	231,567
Intangible assets (net of accumulated amortization of \$4,133 and \$3,333, respectively)	667	1,467
Other receivables	41,040	39,347
Other assets	84,628	88,283
	<u>84,628</u>	<u>88,283</u>
Total assets	<u>\$ 1,577,558</u>	<u>\$ 1,851,847</u>
<b>Liabilities and Shareholders' Equity</b>		
Short-term bank financing	\$ 33,000	\$ —
Payables:		
Customers	72,537	83,899
Checks and drafts	9,522	13,828
Brokers, dealers and clearing organizations	42,187	210,955
Securities sold under agreements to repurchase	54,599	91,293
Trading securities sold, but not yet purchased	218,533	217,584
Accrued compensation	85,990	164,346
Other liabilities and accrued expenses	113,871	145,503
Total liabilities	<u>630,239</u>	<u>927,408</u>
Shareholders' equity:		
Common stock, \$0.01 par value:		
Shares authorized: 100,000,000 at June 30, 2007 and December 31, 2006;		
Shares issued: 19,487,319 at June 30, 2007 and December 31, 2006;		
Shares outstanding: 17,081,693 at June 30, 2007 and 16,984,474 at December 31, 2006	195	195
Additional paid-in capital	722,674	723,928
Retained earnings	348,428	325,684
Less common stock held in treasury at cost: 2,406,492 shares at June 30, 2007 and 2,502,845 shares at December 31, 2006	(124,779)	(126,026)
Other comprehensive income	801	658
Total shareholders' equity	<u>947,319</u>	<u>924,439</u>
Total liabilities and shareholders' equity	<u>\$ 1,577,558</u>	<u>\$ 1,851,847</u>



**Piper Jaffray Companies**  
**Consolidated Statements of Operations**  
**(Unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
<i>(Amounts in thousands, except per share data)</i>				
<b>Revenues:</b>				
Investment banking	\$ 75,597	\$ 63,604	\$ 159,330	\$ 134,085
Institutional brokerage	37,174	38,157	79,102	82,818
Interest	13,816	13,521	31,226	28,206
Other income	406	(889)	987	12,396
Total revenues	<u>126,993</u>	<u>114,393</u>	<u>270,645</u>	<u>257,505</u>
Interest expense	<u>4,417</u>	<u>9,143</u>	<u>11,119</u>	<u>17,296</u>
Net revenues	<u>122,576</u>	<u>105,250</u>	<u>259,526</u>	<u>240,209</u>
<b>Non-interest expenses:</b>				
Compensation and benefits	71,707	60,653	151,823	133,577
Occupancy and equipment	8,849	6,718	16,571	14,827
Communications	5,997	5,593	12,256	10,976
Floor brokerage and clearance	4,176	3,373	7,691	6,048
Marketing and business development	6,380	6,122	12,061	11,301
Outside services	9,122	6,836	16,439	13,128
Cash award program	390	886	746	2,161
Other operating expenses	<u>804</u>	<u>2,910</u>	<u>4,204</u>	<u>7,347</u>
Total non-interest expenses	<u>107,425</u>	<u>93,091</u>	<u>221,791</u>	<u>199,365</u>
<b>Income from continuing operations before income tax expense</b>	<b>15,151</b>	<b>12,159</b>	<b>37,735</b>	<b>40,844</b>
Income tax expense	<u>4,774</u>	<u>4,230</u>	<u>12,636</u>	<u>14,209</u>
<b>Net income from continuing operations</b>	<b><u>10,377</u></b>	<b><u>7,929</u></b>	<b><u>25,099</u></b>	<b><u>26,635</u></b>
<b>Discontinued operations:</b>				
Income/(loss) from discontinued operations, net of tax	<u>(1,051)</u>	<u>(3,792)</u>	<u>(2,355)</u>	<u>1,359</u>
<b>Net income</b>	<b><u>\$ 9,326</u></b>	<b><u>\$ 4,137</u></b>	<b><u>\$ 22,744</u></b>	<b><u>\$ 27,994</u></b>
<b>Earnings per basic common share</b>				
Income from continuing operations	\$ 0.61	\$ 0.43	\$ 1.47	\$ 1.44
Income/(loss) from discontinued operations	<u>(0.06)</u>	<u>(0.20)</u>	<u>(0.14)</u>	<u>0.07</u>
Earnings per basic common share	<u>\$ 0.55</u>	<u>\$ 0.22</u>	<u>\$ 1.33</u>	<u>\$ 1.51</u>
<b>Earnings per diluted common share</b>				
Income from continuing operations	\$ 0.58	\$ 0.40	\$ 1.40	\$ 1.37
Income/(loss) from discontinued operations	<u>(0.06)</u>	<u>(0.19)</u>	<u>(0.13)</u>	<u>0.07</u>
Earnings per diluted common share	<u>\$ 0.52</u>	<u>\$ 0.21</u>	<u>\$ 1.27</u>	<u>\$ 1.44</u>
<b>Weighted average number of common shares outstanding</b>				
Basic	17,073	18,556	17,072	18,509
Diluted	17,919	19,669	17,969	19,408

*See Notes to Consolidated Financial Statements*



**Piper Jaffray Companies**  
**Consolidated Statements of Cash Flows**  
**(Unaudited)**

	Six Months Ended June 30,	
	2007	2006
<i>(Dollars in thousands)</i>		
<b>Operating Activities:</b>		
Net income	\$ 22,744	\$ 27,994
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,413	7,874
Deferred income taxes	8,123	(8,797)
Loss on disposal of fixed assets	314	359
Stock-based compensation	12,503	14,634
Amortization of intangible assets	800	800
Forgivable loan reserve	—	200
Decrease (increase) in operating assets:		
Receivables:		
Customers	(7,217)	(9,265)
Brokers, dealers and clearing organizations	178,566	162,667
Deposits with clearing organizations	3,802	6,039
Securities purchased under agreements to resell	11,778	(21,039)
Net trading securities owned	69,093	(40,567)
Other receivables	(1,424)	(13,843)
Other assets	(4,551)	(11,487)
Increase (decrease) in operating liabilities:		
Payables:		
Customers	(11,364)	37,488
Checks and drafts	(4,306)	(17,163)
Brokers, dealers and clearing organizations	(169,257)	8,455
Securities sold under agreements to repurchase	1,465	(161)
Accrued compensation	(77,923)	(44,106)
Other liabilities and accrued expenses	(31,690)	33,391
Assets held for sale	—	24,489
Liabilities held for sale	—	(24,204)
Net cash provided by operating activities	<u>5,869</u>	<u>133,758</u>
<b>Investing Activities:</b>		
Purchases of fixed assets, net	<u>(5,500)</u>	<u>(5,281)</u>
Net cash used in investing activities	<u>(5,500)</u>	<u>(5,281)</u>
<b>Financing Activities:</b>		
Increase (decrease) in securities loaned	408	(4,559)
Decrease in securities sold under agreements to repurchase	(38,159)	(47,450)
Increase in short-term bank financing	33,000	—
Repurchase of common stock	(17,442)	—
Excess tax benefits from stock-based compensation	2,068	—
Proceeds from stock option transactions	<u>2,266</u>	<u>—</u>
Net cash used in financing activities	<u>(17,859)</u>	<u>(52,009)</u>
<b>Currency adjustment:</b>		
Effect of exchange rate changes on cash	<u>211</u>	<u>830</u>
Net increase (decrease) in cash and cash equivalents	<u>(17,279)</u>	<u>77,298</u>
Cash and cash equivalents at beginning of period	<u>39,903</u>	<u>60,869</u>

Cash and cash equivalents at end of period	<b>\$ 22,624</b>	<b>\$ 138,167</b>
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Supplemental disclosure of cash flow information -

Cash paid during the period for:

Interest	<b>\$ 10,822</b>	\$ 22,063
Income taxes	<b>\$ 1,815</b>	\$ 24,588

Non-cash financing activities -

Issuance of common stock for retirement plan obligations:

8,619 shares and 190,966 shares for the six months ended June 30, 2007 and 2006 respectively	<b>\$ 598</b>	\$ 9,013
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*See Notes to Consolidated Financial Statements*

**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.

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.

In April 2007, the FASB issued FSP No. FIN 39-1, "Amendment of FASB Interpretation No. 39" ("FSP FIN 39-1"). FSP FIN 39-1 modifies FIN No. 39, "Offsetting of Amounts Related to Certain Contracts," and permits companies to offset cash collateral receivables or payables with net derivative positions under certain circumstances. FSP FIN 39-1 is effective for fiscal years beginning after November 15, 2007, with early adoption permitted. FSP FIN 39-1 is not expected to have a material affect to our consolidated financial statements.

#### **Note 4 Discontinued Operations**

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

In accordance with the provisions of Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), the results of PCS operations have been classified as discontinued operations for all periods presented. The Company recorded a loss from discontinued operations, net of tax, of \$1.1 million and \$2.4 million for the three months and six months ended June 30, 2007, respectively, related to the cost of decommissioning a PCS-oriented back office system, litigation-related expenses and restructuring charges. The Company expects to incur additional discontinued operations costs in the third quarter of 2007 related to decommissioning the PCS-oriented 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 June 30, 2007 and December 31, 2006, the Company was counterparty to notional/contract amounts of \$6.6 billion and \$5.8 billion, respectively, of derivative instruments.

The market or fair values related to derivative contract transactions are reported in trading securities owned and trading securities sold, but not yet purchased on the consolidated statements of financial condition. The Company does not utilize “hedge accounting” as described within SFAS No. 133. Derivatives are reported on a net-by-counterparty basis when a legal right of offset exists under a legally enforceable master netting agreement in accordance with FASB Interpretation No. 39, “Offsetting of Amounts Related to Certain Contracts.”

Fair values for derivative contracts represent amounts estimated to be received from or paid to a counterparty in settlement of these instruments. These derivatives are valued using quoted market prices when available or pricing models based on the net present value of estimated future cash flows. The valuation models used require inputs including contractual terms, market prices, yield curves, credit curves and measures of volatility. The net fair value of derivative contracts was approximately \$28.3 million and \$19.7 million as of June 30, 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 June 30, 2007 and December 31, 2006, the Company had \$296.7 million and \$279.2 million, respectively, of par value of municipal bonds in securitization. Each municipal bond is sold into a separate trust that is funded by the sale of variable rate certificates to institutional customers seeking variable rate tax-free investment products. These variable rate certificates reprice weekly. Securitization transactions meeting certain SFAS 140 criteria are treated as sales, with the resulting gain included in other income on the consolidated statements of operations. If a securitization does not meet the sale-of-asset requirements of SFAS 140, the transaction is recorded as a borrowing. The Company retains a residual interest in each structure and accounts for the residual interest as a trading security, which is recorded at fair value on the consolidated statements of financial condition. The fair value of retained interests was \$3.9 million and \$8.1 million at June 30, 2007 and December 31, 2006, respectively, with a weighted average life of 8.5 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 June 30, 2007, the sensitivity of the current fair value of retained interests to immediate 10 percent and 20 percent adverse changes in the key economic assumptions was not material. The Company receives a fee to remarket the variable rate certificates derived from the securitizations.

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

	Six Months Ended	
	June 30,	
<i>(Dollars in thousands)</i>	2007	2006
Proceeds from new securitizations	<b>\$29,000</b>	\$7,578
Remarketing fees received	<b>60</b>	68
Cash flows received on retained interests	<b>2,562</b>	3,325

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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. Accordingly, the Company recorded an asset for the underlying bonds of \$49.5 million and \$51.2 million as of June 30, 2007 and December 31, 2006 respectively, in trading securities owned and a liability for the certificates sold by the trust for \$48.6 million and \$50.1 million as of June 30, 2007 and December 31, 2006 respectively, in other liabilities and accrued expenses on the consolidated statements of financial condition.

The Company enters into interest rate swap agreements to manage interest rate exposure associated with holding the residual interest securities from its securitizations, which have been recorded at fair value and resulted in a liability of approximately \$1.0 million and \$5.7 million at June 30, 2007 and December 31, 2006, respectively.

The Company has contracted with a major third-party financial institution to act as the liquidity provider for the Company's tender option bond securitized trusts. The Company has agreed to reimburse this party for any losses associated with providing liquidity to the trusts. The maximum exposure to loss at June 30, 2007 was \$269.4 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 \$275.9 million at June 30, 2007. The Company believes the likelihood it will be required to fund the reimbursement agreement obligation under any provision of the arrangement is remote, and accordingly, no liability for such a guarantee has been recorded in the accompanying consolidated financial statements.

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

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

<i>(Dollars in thousands)</i>	<b>June 30, 2007</b>	December 31, 2006
Receivable arising from unsettled securities transactions, net	\$ —	\$ 18,233
Deposits paid for securities borrowed	59,103	271,028
Receivable from clearing organizations	51,831	6,811
Securities failed to deliver	5,279	1,674
Other	18,124	15,128
	<b>\$ 134,337</b>	<b>\$ 312,874</b>

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

<i>(Dollars in thousands)</i>	<b>June 30, 2007</b>	December 31, 2006
Payable arising from unsettled securities transactions, net	\$ 15,515	\$ —
Deposits received for securities loaned	408	189,214
Payable to clearing organizations	20,543	17,140
Securities failed to receive	5,594	4,531
Other	127	70
	<b>\$ 42,187</b>	<b>\$ 210,955</b>

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.

**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:

<i>(Dollars in thousands)</i>	<u>June 30, 2007</u>	<u>December 31, 2006</u>
<b>Owned:</b>		
Corporate securities:		
Equity securities	\$ 30,760	\$ 14,163
Convertible securities	47,660	59,118
Fixed income securities	137,409	235,120
Asset-backed securities	179,694	158,108
U.S. government securities	7,589	10,715
Municipal securities	350,231	364,160
Other	45,214	25,142
	<u>\$ 798,557</u>	<u>\$ 866,526</u>
<b>Sold, but not yet purchased:</b>		
Corporate securities:		
Equity securities	\$ 35,004	\$ 31,452
Convertible securities	4,952	2,543
Fixed income securities	19,985	16,378
Asset-backed securities	61,991	51,001
U.S. government securities	92,796	109,719
Municipal securities	200	5
Other	3,605	6,486
	<u>\$ 218,533</u>	<u>\$ 217,584</u>

At June 30, 2007 and December 31, 2006, trading securities owned in the amount of \$87.3 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.

**Note 9 Goodwill and Intangible Assets**

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

*(Dollars in thousands)*

Goodwill	
<b>Balance at December 31, 2006</b>	<b>\$231,567</b>
Goodwill acquired	—
Impairment losses	—
<b>Balance at June 30, 2007</b>	<b>\$231,567</b>

*(Dollars in thousands)*

Intangible assets	
<b>Balance at December 31, 2006</b>	<b>\$ 1,467</b>
Intangible assets acquired	—
Amortization of intangible assets	(800)
Impairment losses	—
<b>Balance at June 30, 2007</b>	<b>\$ 667</b>

**Note 10 Financing**

The Company had uncommitted credit agreements with banks totaling \$675 million at June 30, 2007, comprised of \$555 million in discretionary secured lines under which \$33 million was outstanding at June 30, 2007 and no amount was outstanding at December 31, 2006, and \$120 million in discretionary unsecured lines under which no amount was outstanding at June 30, 2007 and December 31, 2006. In addition, the Company has established arrangements to obtain financing using as collateral the Company's securities held by its clearing bank and by another broker dealer at the end of each business day. Repurchase agreements and securities loaned to other broker dealers are also used as sources of funding.

The Company's short-term financing bears interest at rates based on the federal funds rate. At June 30, 2007 and December 31, 2006, the weighted average interest rate on borrowings was 5.69 percent and 5.72 percent, respectively. At June 30, 2007 and December 31, 2006, no formal compensating balance agreements existed, and the Company was in compliance with all debt covenants related to these facilities.

**Note 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 June 30, 2007.

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

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 six months ended June 30, 2007 the Company incurred \$0.7 million of expense to revise contract termination cost estimates.

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

<i>(Dollars in thousands)</i>	PCS Restructuring
<b>Balance at December 31, 2006</b>	<b>\$ 28,583</b>
Provisions charged to discontinued operations	682
Cash outlays	(10,517)
Non-cash write-downs	(398)
<b>Balance at June 30, 2007</b>	<b>\$ 18,350</b>

#### **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 six months ended June 30, 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 six months ended June 30, 2007, the Company reissued 8,619 common shares out of treasury in fulfillment of \$0.6 million in obligations under the Piper Jaffray Companies Retirement Plan and reissued 250,058 common shares out of treasury as a result of vesting and exercise transactions under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan (the "Long-Term Incentive Plan").

### Note 14 Geographic Areas

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

<i>(Dollars in thousands)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Revenues:				
Domestic operations	\$ 109,354	\$ 99,617	\$ 221,831	\$ 224,380
International operations	13,222	5,633	37,695	15,829
Consolidated	\$ 122,576	\$ 105,250	\$ 259,526	\$ 240,209

<i>(Dollars in thousands)</i>	June 30, 2007	December 31, 2006
Long-lived assets:		
Domestic operations	\$ 23,252	\$ 22,503
International operations	2,706	2,786
Consolidated	\$ 25,958	\$ 25,289

### Note 15 Earnings Per Share

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

<i>(Amounts in thousands, except per share data)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Net income	\$ 9,326	\$ 4,137	\$ 22,744	\$ 27,994
Shares for basic and diluted calculations:				
Average shares used in basic computation	17,073	18,556	17,072	18,509
Stock options	118	125	125	70
Restricted stock	728	988	772	829
Average shares used in diluted computation	17,919	19,669	17,969	19,408
Earnings per share:				
Basic	\$ 0.55	\$ 0.22	\$ 1.33	\$ 1.51
Diluted	\$ 0.52	\$ 0.21	\$ 1.27	\$ 1.44

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

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

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

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

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

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

The Company recorded compensation expense, net of estimated forfeitures, within continuing operations of \$7.0 million and \$5.6 million for the three months ended June 30, 2007 and 2006, respectively, and \$12.4 million and \$10.3 million for the six months ended June 30, 2007 and 2006, respectively, related to employee stock option and restricted stock grants. The tax benefit related to the total compensation cost for stock-based compensation arrangements totaled \$2.7 million and \$2.1 million for the three months ended June 30, 2007 and 2006, respectively and \$4.8 million and \$3.9 million for the six months ended June 30, 2007 and 2006, respectively.

The fair value of each stock option is estimated on the date of grant using the Black-Scholes option-pricing model 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 42 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 six months ended June 30:

	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

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The following table summarizes the changes in the Company's outstanding stock options for the six months ended June 30, 2007:

	<u>Options Outstanding</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term (Years)</u>	<u>Aggregate Intrinsic Value</u>
<b>December 31, 2006</b>	510,181	\$ 43.25	7.8	\$ 11,172,964
Granted	35,641	70.13		
Exercised	(48,287)	46.90		
Canceled	(12,642)	40.98		
<b>June 30, 2007</b>	484,893	\$ 44.92	7.5	\$ 5,241,693
Options exercisable at June 30, 2007	187,188	\$ 46.35	6.9	\$ 1,755,823

As of June 30, 2007, there was \$2.0 million of total unrecognized compensation cost related to stock options expected to be recognized over a weighted average period of 1.69 years.

Cash received from option exercises for the six months ended June 30, 2007 was \$2.3 million. The tax benefit realized for the tax deduction from option exercises totaled \$0.9 million for the six months ended June 30, 2007. There were no option exercises for the six months ended June 30, 2006.

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

	<u>Non-Vested Restricted Stock</u>	<u>Weighted Average Grant Date Fair Value</u>
<b>December 31, 2006</b>	1,556,801	\$ 43.81
Granted	612,951	70.01
Vested	(310,626)	48.79
Canceled	(147,796)	48.52
<b>June 30, 2007</b>	1,711,330	\$ 51.89

As of June 30, 2007, there was \$54.8 million of total unrecognized compensation cost related to restricted stock expected to be recognized over a weighted average period of 2.22 years.

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

#### **Note 17** *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 June 30, 2007, net capital calculated under the SEC rule was \$357.9 million, and exceeded the minimum net capital required under the SEC rule by \$356.1 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 June 30, 2007, Piper Jaffray Ltd. was in compliance with the capital requirements of the FSA.

**Note 18** *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 six month period ended June 30, 2007.

**Note 19** *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 late 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.

**Note 20** *Definitive Agreement to Acquire Goldbond Capital Holdings Limited*

On July 3, 2007, the Company announced the signing of a definitive agreement to acquire Goldbond Capital Holdings Limited (“Goldbond”), a Hong Kong-based investment bank, for approximately \$51.3 million. The purchase price is subject to adjustment based on an audit of Goldbond’s consolidated net asset value as of March 31, 2007. Consideration for the transaction will be paid in cash upon closing, except for \$4.1 million to be paid in the form of restricted stock of the Company as partial consideration for the equity interest held by one of the sellers. The Company currently expects the transaction to close late in the third quarter of 2007, subject to customary closing conditions and certain regulatory approvals, including approval from the shareholders of Goldbond Group Holdings Limited, an indirect equity holder in Goldbond that is listed on the Hong Kong Stock Exchange. For more information regarding the Company’s acquisition of Goldbond, please refer to the Company’s Form 8-K, filed with the SEC on July 3, 2007.

## 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 I, 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](http://www.piperjaffray.com) and at the SEC Web site at [www.sec.gov](http://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 second quarter of 2007, discontinued operations recorded a net loss of \$1.1 million, which included costs related to decommissioning a retail-oriented back-office system, costs for PCS litigation-related expenses and restructuring charges. We expect to incur additional costs in the third quarter of 2007 related to decommissioning the retail-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. We currently expect the transaction to close late in the third quarter of 2007, subject to certain regulatory approvals and customary closing conditions, including the receipt of third party consents. In addition, on July 3, 2007, we entered into a definitive agreement to purchase all equity interests in Goldbond Capital Holdings Limited ("Goldbond"), an investment bank and financial services company based in Hong Kong. With this acquisition, we will gain capital markets capabilities required to accelerate the growth of our Asia platform, including corporate finance, sales and trading, equity capital markets and research. We also expect this transaction to close late in the third quarter of 2007, subject to customary regulatory approvals. Both of these transactions are important components in our plan to redeploy capital from the sale of our PCS branch network.

In the third quarter of 2006, we entered into a strategic relationship with CIT Group, Inc. ("CIT"), which allowed us to offer expanded debt financing solutions to middle-market companies. During the second quarter, CIT announced the acquisition of a mergers and acquisitions advisory firm, creating a significant overlap with our advisory capabilities that resulted in our mutual agreement to terminate the alliance agreement effective July 30, 2007. Revenues generated from this agreement were not significant. We are evaluating several alternatives for providing debt solutions to effectively address our clients' debt needs going forward.

We plan to continue our focus on revenue growth through expansion of our capital markets business and entry into and expansion of the investment management business. Within our capital markets business, our efforts will be focused on growing our sector expertise, product depth and geographic reach, as demonstrated by the pending acquisition of Goldbond. The pending acquisition of FAMCO will allow us to enter the investment management business. We expect that continued growth of these businesses will come from a combination of internal organic growth and acquisitions. 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.

## **RESULTS FOR THE THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2007**

Net revenues from continuing operations for the three months ended June 30, 2007 were \$122.6 million. For the three months ended June 30, 2007, our net income, including continuing and discontinued operations, was \$9.3 million, or \$0.52 per diluted share, up from net income of \$4.1 million, or \$0.21 per diluted share, for the prior-year period. For the three months ended June 30, 2007, net income from continuing operations totaled \$10.4 million, or \$0.58 per diluted share, up from \$7.9 million, or \$0.40 per diluted share, for the corresponding period in 2006.

For the six months ended June 30, 2007, net revenues from continuing operations were \$259.5 million, an increase of 8 percent over the year-ago period. Net income for the first half of 2007 was \$22.7 million, or \$1.27 per diluted share, down from net income of \$28.0 million, or \$1.44 per diluted share, for the prior-year period. For the six months ended June 30, 2007, net income from continuing operations totaled \$25.1 million, or \$1.40 per diluted share, down from \$26.6 million, or \$1.37 per diluted share, for the corresponding period in 2006. The year-ago period included a net gain of \$5.6 million, or \$0.29 per diluted share, related to our ownership of two seats on the New York Stock Exchange, Inc. ("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.

## Results of Operations

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

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

<i>(Dollars in thousands)</i>	Results of Operations For the Three Months Ended June 30,			Results of Operations as a Percentage of Net Revenues For the Three Months Ended June 30,	
	2007	2006	2007 v2006	2007	2006
<b>Revenues:</b>					
Investment banking	\$ 75,597	\$ 63,604	18.9%	61.7%	60.4%
Institutional brokerage	37,174	38,157	(2.6)	30.3	36.3
Interest	13,816	13,521	2.2	11.3	12.8
Other income	406	(889)	N/M	0.3	(0.8)
Total revenues	126,993	114,393	11.0	103.6	108.7
Interest expense	4,417	9,143	(51.7)	3.6	8.7
Net revenues	122,576	105,250	16.5	100.0	100.0
<b>Non-interest expenses:</b>					
Compensation and benefits	71,707	60,653	18.2	58.5	57.6
Occupancy and equipment	8,849	6,718	31.7	7.2	6.4
Communications	5,997	5,593	7.2	4.9	5.3
Floor brokerage and clearance	4,176	3,373	23.8	3.4	3.2
Marketing and business development	6,380	6,122	4.2	5.2	5.8
Outside services	9,122	6,836	33.4	7.4	6.5
Cash award program	390	886	(56.0)	0.3	0.8
Other operating expenses	804	2,910	(72.4)	0.7	2.8
Total non-interest expenses	107,425	93,091	15.4	87.6	88.4
<b>Income from continuing operations</b>					
<b>before tax expense</b>	15,151	12,159	24.6	12.4	11.6
Income tax expense	4,774	4,230	12.9	3.9	4.0
<b>Net income from continuing operations</b>	10,377	7,929	30.9	8.5	7.6
<b>Discontinued operations:</b>					
Loss from discontinued operations, net of tax	(1,051)	(3,792)	(72.3)	(0.9)	(3.7)
<b>Net income</b>	\$ 9,326	\$ 4,137	125.4%	7.6%	3.9%

N/M — Not Meaningful

For the three months ended June 30, 2007, net income, including continuing and discontinued operations, totaled \$9.3 million. Net revenues from continuing operations increased 16.5 percent to \$122.6 million for the second quarter of 2007. For the three months ended June 30, 2007, investment banking revenues increased 18.9 percent to \$75.6 million, compared with revenues of \$63.6 million in the prior-year period. This increase in investment banking revenues was attributable to higher equity and public finance underwriting activity, offset in part by lower merger and acquisition revenue. Institutional brokerage revenues decreased 2.6 percent to \$37.2 million for the second quarter of 2007, compared with \$38.2 million in the corresponding period in the prior year, due primarily to lower equity trading volumes. In the second quarter of 2007, net interest income increased to \$9.4 million, compared with \$4.4 million in the second quarter of 2006. The increase was primarily driven by significantly reduced borrowing needs following the sale of our PCS branch network in August 2006. In the second quarter of 2007, other income was \$0.4 million, compared with a loss of \$0.9 million in the prior-year period. The loss in the second quarter of 2006 was a result of a decline in the market value of NYSE

Group, Inc. restricted shares that we received in connection with the sale of our two seats on the NYSE. Non-interest expenses increased to \$107.4 million for the three months ended June 30, 2007, from \$93.1 million in the corresponding period in the prior year. This increase was primarily attributable to higher compensation and benefits, occupancy and outside services expenses.

## NON-INTEREST EXPENSES FROM CONTINUING OPERATIONS

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

For the three months ended June 30, 2007, compensation and benefits expenses increased 18.2 percent to \$71.7 million, from \$60.7 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 second quarter of 2007, compared with 57.6 percent for the second quarter of 2006.

**Occupancy and Equipment** - In the second quarter of 2007, occupancy and equipment expenses were \$8.8 million, compared with \$6.7 million for the corresponding period in 2006. In the second quarter of 2007, we incurred costs of \$0.9 million to relocate office space in New York City. We also made investments in technology to support our growth initiatives.

**Communications** - Communication expenses include costs for telecommunication and data communication, primarily consisting of expenses for obtaining third-party market data information. For the three months ended June 30, 2007, communication expenses were \$6.0 million, an increase of 7.2 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 June 30, 2007, floor brokerage and clearance expenses were \$4.2 million, compared with \$3.4 million for the three months ended June 30, 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. We anticipate our floor brokerage costs to increase modestly because we have outsourced our NYSE floor trading operations. Expenses from our NYSE floor trading operations have historically been included within compensation and benefits expenses, and will be included within floor brokerage and clearance expenses in future periods.

**Marketing and Business Development** - Marketing and business development expenses include travel and entertainment and promotional and advertising costs. In the second quarter of 2007, marketing and business development expenses increased to \$6.4 million, compared with \$6.1 million in the second quarter of 2006. The increase was due to higher travel expenses and increased supply 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 \$9.1 million in the second quarter of 2007, compared with \$6.8 million for the prior-year period, an increase of 33.4 percent. This increase was due to expenses related to the implementation of a new back-office system to support our capital markets business and higher outside legal fees. We anticipate incurring additional expenses in the third quarter of 2007 related to the implementation of the new back-office system.

**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 June 30, 2007, cash awards expense decreased to \$0.4 million, compared with \$0.9 million in the prior-year period. The sale of our PCS branch network resulted in either the forfeiture or accelerated vesting of approximately half of our cash awards in the prior year period and as a result, our ongoing cash award expense decreased. We anticipate incurring approximately \$0.9 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 to \$0.8 million in the second quarter of 2007, compared with \$2.9 million in second quarter of 2006, primarily due to a decline in litigation-related expenses.

**Income Taxes** - For the three months ended June 30, 2007, our provision for income taxes from continuing operations was \$4.8 million, equating to an effective tax rate of 31.5 percent. For the three months ended June 30, 2006, income taxes from continuing operations were \$4.2 million, equating to an effective tax rate of 34.8 percent. The decreased effective tax rate was attributable to an increase in the ratio of municipal interest income, which is non-taxable, to total taxable income.

**NET REVENUES FROM CONTINUING OPERATIONS (DETAIL)**

<i>(Dollars in thousands)</i>	<b>For the Three Months Ended June 30,</b>		<b>2007 vs. 2006</b>
	<b>2007</b>	<b>2006</b>	
<b>Net revenues:</b>			
Investment banking			
Financing			
Equities	\$ 40,801	\$ 26,967	51.3%
Debt	25,247	20,272	24.5
Advisory services	11,706	17,934	(34.7)
<i>Total investment banking</i>	<u>77,754</u>	<u>65,173</u>	19.3
Institutional sales and trading			
Equities	28,013	30,800	(9.0)
Fixed income	16,036	12,890	24.4
<i>Total institutional sales and trading</i>	<u>44,049</u>	<u>43,690</u>	0.8
<i>Other income</i>	<u>773</u>	<u>(3,613)</u>	N/M
<b>Total net revenues</b>	<u>\$ 122,576</u>	<u>\$ 105,250</u>	16.5%

*N/M — Not Meaningful*

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

For the three months ended June 30, 2007, investment banking revenues increased 19.3 percent to \$77.8 million, compared with \$65.2 million in the corresponding period in the prior year. Equity financing revenues increased 51.3 percent to \$40.8 million in the second quarter of 2007, due to the completion of a higher number of public equity offerings with higher average revenue per transaction. In the second quarter of 2007, we completed 34 equity financings, raising \$4.5 billion in capital, compared with 25 equity financings, raising \$3.2 billion in capital, in the prior-year period. Debt financing revenues in the second quarter of 2007 increased 24.5 percent to \$25.2 million driven by increased public finance activity. We were the sole underwriter of 138 municipal issues with a par value of \$2.2 billion during the second quarter of 2007, compared with 125 municipal issues with a par value of \$1.7 billion in the prior-year period. Advisory services revenues decreased 34.7 percent to \$11.7 million in the second quarter of 2007, as we completed fewer merger and acquisition transactions and average revenues per transaction declined. We completed 7 mergers and acquisitions transactions during the second quarter of 2007, compared with 11 mergers and acquisitions transactions in the prior-year period.

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

For the three months ended June 30, 2007, institutional sales and trading revenues were \$44.0 million or essentially flat to the prior-year period. Equity institutional sales and trading revenue decreased 9.0 percent in the second quarter of 2007, to \$28.0 million due to lower volumes. Partially offsetting this decrease was incremental sales and trading revenue from our European sales and trading operations. Fixed income institutional sales and trading revenues increased 24.4 percent to \$16.0 million in the second quarter of 2007 due primarily to stronger high yield and structured products revenues.

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 addition, other income/loss included interest expense from our subordinated debt prior to its repayment in August 2006. In the second quarter of 2007, other income totaled \$0.8 million, compared with a loss of \$3.6 million in the three months ended June 30, 2006. The fluctuation is a result of two factors. First, in the third quarter of 2006, we repaid \$180 million in subordinated debt, resulting in lower interest expense in the second quarter of 2007. Second, in the second quarter of 2006, we recognized a loss due to a decline in the market value of NYSE Group, Inc. restricted shares that we received from the sale of our two seats on the NYSE.

## **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 second quarter of 2007, discontinued operations recorded a net loss of \$1.1 million that included costs related to decommissioning a retail-oriented back-office system, PCS litigation-related expenses and restructuring charges. We expect to incur additional costs in the third quarter of 2007 related to decommissioning the retail-oriented back-office 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.

**FINANCIAL SUMMARY FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006**

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

	Results of Operations For the Six Months Ended June 30,			Results of Operations as a Percentage of Net Revenues For the Six Months Ended June 30,	
	2007	2006	2007 v2006	2007	2006
<i>(Dollars in thousands)</i>					
<b>Revenues:</b>					
Investment banking	\$ 159,330	\$ 134,085	18.8%	61.4%	55.8%
Institutional brokerage	79,102	82,818	(4.5)	30.5	34.5
Interest	31,226	28,206	10.7	12.0	11.7
Other income	987	12,396	(92.0)	0.4	5.2
Total revenues	270,645	257,505	5.1	104.3	107.2
Interest expense	11,119	17,296	(35.7)	4.3	7.2
Net revenues	259,526	240,209	8.0	100.0	100.0
<b>Non-interest expenses:</b>					
Compensation and benefits	151,823	133,577	13.7	58.5	55.6
Occupancy and equipment	16,571	14,827	11.8	6.4	6.2
Communications	12,256	10,976	11.7	4.7	4.6
Floor brokerage and clearance	7,691	6,048	27.2	3.0	2.5
Marketing and business development	12,061	11,301	6.7	4.7	4.7
Outside services	16,439	13,128	25.2	6.3	5.5
Cash award program	746	2,161	(65.5)	0.3	0.9
Other operating expenses	4,204	7,347	(42.8)	1.6	3.0
Total non-interest expenses	221,791	199,365	11.2	85.5	83.0
<b>Income from continuing operations</b>					
<b>before tax expense</b>	37,735	40,844	(7.6)	14.5	17.0
Income tax expense	12,636	14,209	(11.1)	4.8	5.9
<b>Net income from continuing operations</b>	25,099	26,635	(5.8)	9.7	11.1
<b>Discontinued operations:</b>					
Income/(loss) from discontinued operations, net of tax	(2,355)	1,359	N/M	(0.9)	0.6
<b>Net income</b>	\$ 22,744	\$ 27,994	(18.8)%	8.8%	11.7%

*N/M — not Meaningful*

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

For the six months ended June 30, 2007, net income, which includes both continuing and discontinued operations, totaled \$22.7 million, an 18.8 percent decrease from the year-ago period. Net revenues from continuing operations increased to \$259.5 million for the six months ended June 30, 2007, an increase of 8.0 percent from the corresponding period in the prior year. Investment banking revenues increased 18.8 percent to \$159.3 million for the six months ended June 30, 2007, compared with revenues of \$134.1 million in the prior-year period. This increase was driven by higher equity and public finance underwriting activity. Institutional brokerage revenues decreased 4.5 percent over the prior-year period to \$79.1 million as a result of decreased equity commissions, partially offset by increased revenues related to our high-yield and structured products. Net interest income for

the first six months of 2007 increased to \$20.1 million, up from \$10.9 million for the first six months of 2006. This increase was primarily driven by significantly reduced borrowing needs following the sale of our PCS branch network in August 2006. Other income for the six months ended June 30, 2007 was \$1.0 million, compared with \$12.4 million for the corresponding period in the prior year. In the first six months of 2006, we recorded a \$9.1 million gain related to our ownership of two seats on the NYSE, which were exchanged for cash and restricted shares of the NYSE Group, Inc. Non-interest expenses increased to \$221.8 million for the six months ended June 30, 2007, from \$199.4 million for the six months ended June 30, 2006. This increase was attributable to increased variable compensation and benefits expenses due to higher investment banking revenues and increased outside services expense due to cost related to implementation of a new back-office system to support our capital markets business.

**NON-INTEREST EXPENSES FROM CONTINUING OPERATIONS**

**Outside Services** – Outside services expenses increased 25.2 percent to \$16.4 million for the six months ended June 30, 2007, compared with \$13.1 million for year-ago period. This increase was due to higher outside legal fees and increased trading system expense related to volume increases in our European business. In addition, we incurred costs associated with implementing a new back-office system to support our capital markets business. We anticipate incurring additional implementation costs in the third quarter of 2007.

**NET REVENUES FROM CONTINUING OPERATIONS (DETAIL)**

	For the Six Months Ended		2007 vs. 2006
	June 30,		
<i>(Dollars in thousands)</i>	<u>2007</u>	<u>2006</u>	
<b>Net revenues:</b>			
Investment banking			
Financing			
Equities	\$ 81,511	\$ 59,754	36.4%
Debt	45,273	36,725	23.3
Advisory services	<u>36,582</u>	<u>40,525</u>	(9.7)
<i>Total investment banking</i>	163,366	137,004	19.2
Institutional sales and trading			
Equities	59,123	62,961	(6.1)
Fixed income	<u>35,169</u>	<u>33,063</u>	6.4
<i>Total institutional sales and trading</i>	94,292	96,024	(1.8)
<i>Other income</i>	<u>1,868</u>	<u>7,181</u>	(74.0)
<b>Total net revenues</b>	<u>\$ 259,526</u>	<u>\$ 240,209</u>	8.0%

For the first six months of 2007, investment banking revenues increased 19.2 percent to \$163.4 million, compared with \$137.0 million in the first six months of 2006. Equity financing revenues increased 36.4 percent to \$81.5 million for the six months ended June 30, 2007. This increase was due to a higher number of completed transactions and increased revenue per transaction. During the six months ended June 30, 2007, we completed 59 equity financings, raising \$8.1 billion in capital, compared with 54 equity offerings, raising \$7.5 billion in capital, during the six months ended June 30, 2006. Debt financing revenues for the six months ended June 30, 2007 increased 23.3 percent to \$45.3 million, compared with the year-ago period. This increase resulted from increased corporate debt and public finance revenues. We were the sole underwriter of 232 public finance issues with a par value of \$3.8 billion in the first six months of 2007, compared with 215 public finance issues with a par valued of \$3.1 billion in the prior-year period. Advisory services revenues decreased 9.7 percent to \$36.6 million for the six months ended June 30, 2007 due to a decline in U.S. merger and acquisition revenues. We completed 16 U.S. mergers and acquisitions transactions for the first six months of 2007, compared with 23 deals for the first six months of 2006.

For the six months ended June 30, 2007, institutional sales and trading revenues were down slightly compared to the prior-year period. Equity institutional sales and trading revenue decreased 6.1 percent for the six months ended June 30, 2007, to \$59.1 million. This decline is due to lower volumes and pressure by institutional clients to reduce commissions in our traditional equity sales and trading business. Partially offsetting this decrease is incremental sales and trading revenue from European sales and trading operations. Fixed income institutional sales and trading revenues increased 6.4 percent to \$35.2 million for the six months ended June 30, 2007, compared with \$33.1 million for the corresponding period in 2006. We were able to improve year-over-year performance through increased high-yield and structured product revenues.

## DISCONTINUED OPERATIONS

In the second half of 2007, discontinued operations recorded a net loss of \$2.4 million. The underlying reasons for costs recorded to discontinued operations for the six months ended June 30, 2007 are substantially the same as those described in the discussion for the three months ended June 30, 2007.

## Recent Accounting Pronouncements

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

## Critical Accounting Policies

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

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

## VALUATION OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

<b>June 30, 2007</b> <i>(Dollars in thousands)</i>	<b>Trading Securities Owned or Pledged</b>	<b>Trading Securities Sold, But Not Yet Purchased</b>
Fair value of securities excluding derivatives, based on quoted prices and independent sources	\$ 761,379	\$ 214,893
Fair value of securities excluding derivatives, as determined by management	5,559	—
Fair value of derivatives, as determined by management	31,619	3,640
	<u>\$ 798,557</u>	<u>\$ 218,533</u>

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

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

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities” (“SFAS 159”). SFAS 159 permits entities to choose to measure certain financial assets and liabilities and other eligible items at fair value, which are not otherwise currently allowed to be measured at fair value. Under SFAS 159, the decision to measure items at fair value is made at specified election dates on an irrevocable instrument-by-instrument basis. Entities electing the fair value option would be required to recognize changes in fair value in earnings and to expense upfront costs and fees associated with the item for which the fair value option is elected. Entities electing the fair value option are required to distinguish on the face of the statement of financial position, the fair value of assets and liabilities for which the fair value option has been elected and similar assets and liabilities measured using another measurement attribute. If elected, SFAS 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007, with earlier adoption permitted provided that the entity also early adopts all of the requirements of SFAS 157. We are currently evaluating the impact of SFAS 159 on our results of operations and financial condition.

## **GOODWILL AND INTANGIBLE ASSETS**

We record all assets and liabilities acquired in purchase acquisitions, including goodwill, 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 June 30, 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.

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 limited historical data regarding employee exercise behavior or employee post-termination behavior. Additional information regarding assumptions used in the Black-Scholes pricing model can be found in Note 16 to our unaudited consolidated financial statements.

## 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 June 30, 2007, approximately \$13.2 million of the indemnification remained available.

As part of our asset purchase agreement with UBS, for the sale of our PCS branch network that closed in August 2006, UBS agreed to assume certain liabilities of the PCS business, including certain liabilities and obligations arising from litigation, arbitration, customer complaints and other claims related to the PCS business. In certain cases we have agreed to indemnify UBS for litigation matters after UBS has incurred costs of \$6.0 million related to these matters. In addition, we have retained liabilities arising from regulatory matters and certain 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 discretionary bonus. The timing of these bonus payments, which generally are paid in February, has a significant impact on our cash position and liquidity when paid.

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

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 late in the third quarter of 2007. We anticipate funding the purchase of FAMCO through existing funding sources.

On July 3, 2007, we entered into a definitive agreement to purchase all equity interests in Goldbond, an investment bank and financial services company based in Hong Kong. The purchase price under the agreement is \$51.3 million, all of which will be paid in cash at the time of closing except \$4.1 million to be paid in our restricted stock. The purchase price is subject to adjustment based on an audit of Goldbond's consolidated net asset value as of March 31, 2007. We currently expect the transaction to close late in the third quarter of 2007. We anticipate funding the purchase of Goldbond through existing funding sources.

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. In the first quarter of 2007, we repurchased \$10 million in common shares. During the second quarter of 2007, we did not repurchase any shares of outstanding common stock under this authorization due to the pending Goldbond announcement. We have \$70.0 million remaining under authorization.

## **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 \$5 million in short-term bank loans and an average of \$1 million in securities lending arrangements in the second quarter of 2007. This compares to an average of \$35 million in short-term bank loans and an average of \$224 million in securities lending arrangements in the second quarter of 2006. The reduction in customer receivable financing from the second quarter of 2006 to the second quarter of 2007 was due to the sale of the PCS branch network and the related customer margin loans, which were financed in large part by securities lending arrangements. Average net repurchase agreements (excluding economic hedges) of \$113 million and \$120 million in the second quarter of 2007 and 2006, respectively, were primarily used to finance inventory. Growth in our securities inventory is generally financed through repurchase agreements. Bank financing supplements repurchase agreement financing as necessary. On June 30, 2007, we had \$33 million in outstanding short-term bank financing.

As of June 30, 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 June 30, 2007, net capital under the SEC's Uniform Net Capital Rule was \$357.9 million and \$356.1 million in excess of the minimum required net capital.

## Off-Balance Sheet Arrangements

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

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

## Enterprise Risk Management

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

## VALUE-AT-RISK

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

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

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

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

<i>(Dollars in thousands)</i>	<u>At June 30, 2007</u>	<u>At December 31, 2006</u>
Interest Rate Risk	\$ 470	\$ 281
Equity Price Risk	<u>293</u>	<u>261</u>
Aggregate Undiversified Risk	763	542
Diversification Benefit	<u>(219)</u>	<u>(112)</u>
Aggregate Diversified Value-at-Risk	\$ 544	\$ 430

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

**For the Six Months Ended June 30, 2007**

<i>(Dollars in thousands)</i>	<u>High</u>	<u>Low</u>	<u>Average</u>
Interest Rate Risk	\$470	\$354	\$388
Equity Price Risk	293	257	279
Aggregate Undiversified Risk	763	623	667
Aggregate Diversified Value-at-Risk	544	411	446

**For the Year Ended December 31, 2006**

<i>(Dollars in thousands)</i>	<u>High</u>	<u>Low</u>	<u>Average</u>
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 simulated VaR for managing risk on a daily basis. Model-based This involves constructing a distribution of hypothetical daily changes in the value of our positions based on market risk factors embedded in the current portfolio and historical observations of daily changes in these factors. Simulated VaR derived from models 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. Different VaR methodologies and distribution assumptions used in the models could produce materially different VaR numbers.

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

<i>(Dollars in thousands)</i>	<u>At June 30, 2007</u>	<u>At December 31, 2006</u>
Interest Rate Risk	\$ 588	\$ 574
Equity Price Risk	<u>421</u>	<u>177</u>
Aggregate Undiversified Risk	1,009	751
Diversification Benefit	<u>(286)</u>	<u>(150)</u>
Aggregate Diversified Value-at-Risk	\$ 723	\$ 601

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

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

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

### **ITEM 4. CONTROLS AND PROCEDURES**

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

## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

There are no material changes from the legal proceedings previously disclosed in Part I, Item 3—“Legal Proceedings” of our Annual Report on Form 10-K for the year ended December 31, 2006 and Part II, Item 1—“Legal Proceedings” of our Quarterly Report on Form 10-Q for the quarter ended March 31, 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 Goldbond.***

We announced the acquisition of Goldbond Capital Holdings Limited (“Goldbond”), an investment bank and financial services company based in Hong Kong. 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 Goldbond and Piper Jaffray businesses may be greater than expected and may adversely affect our results of operations and financial condition, the expected benefits of the Goldbond acquisition may take longer than anticipated to achieve and may not be achieved in their entirety or at all, and the proposed transaction would expand our international operations, which are subject to unique risks such as the risk of non-compliance with foreign laws and regulations and economic and political conditions in the countries where we operate.

## 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 June 30, 2007.

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

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(1)</u>
Month #1 (April 1, 2007 to April 30, 2007)	3,409(2)	\$ 63.17	0	
Month #2 (May 1, 2007 to May 31, 2007)	3,420(2)	\$ 63.51	0	
Month #3 (June 1, 2007 to June 30, 2007)	2,435(2)	\$ 61.02	0	
Total	<u>9,264</u>	<u>\$ 62.73</u>	<u>0</u>	\$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.

## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

- (a) The Company’s 2007 annual meeting of shareholders was held on May 2, 2007. The holders of 16,035,338 shares of common stock, 84 percent of the outstanding shares entitled to vote as of the record date, were represented at the meeting in person or by proxy.

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(c) At the annual meeting, Andrew S. Duff, Samuel L. Kaplan and Frank L. Sims were elected as Class I directors to serve three-year terms expiring at the annual meeting of shareholders in 2010. The following table shows the vote totals for each of these individuals:

<u>Name</u>	<u>Votes For</u>	<u>Authority Withheld</u>
Andrew S. Duff	15,556,164	479,175
Samuel L. Kaplan	14,921,877	1,113,462
Frank L. Sims	15,790,228	245,111

At the annual meeting, our shareholders also ratified the selection of Ernst & Young LLP as the Company's independent auditors for the year ending December 31, 2007, and approved the amendment and restatement of the Company's Amended and Restated Certificate of Incorporation to provide for the declassification of the Board of Directors. The following table indicates the specific voting results for each of these items:

<u>Proposal</u>	<u>Votes For</u>	<u>Votes Against</u>	<u>Abstentions</u>	<u>Broker Non-Votes</u>
Ratification of the selection of Ernst & Young LLP as the independent auditor for the year ended December 31, 2007.	15,909,508	105,650	20,180	0
Approval of the amendment and restatement of the Amended and Restated Certificate of Incorporation to provide for the declassification of our Board of Directors	15,767,400	214,338	53,598	0

## ITEM 6. EXHIBITS

<u>Exhibit Number</u>	<u>Description</u>	<u>Method of Filing</u>
2.1	Equity Purchase Agreement, dated July 3, 2007, among Piper Jaffray Companies, all owners of the equity interests in Goldbond Capital Holdings Limited (“Sellers”), Ko Po Ming, and certain individuals and entities who are owners of certain Sellers	(1)
3.1	Amended and Restated Certificate of Incorporation	Filed herewith
3.2	Amended and Restated Bylaws	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

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(1) Incorporated herein by reference to Item 2.1 of the Company’s Form 8-K, filed with the Commission on July 3, 2007.

**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 August 3, 2007.

PIPER JAFFRAY COMPANIES

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

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

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**Exhibit Index**

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3.2	Amended and Restated Bylaws	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

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(1) Incorporated herein by reference to Item 2.1 of the Company’s Form 8-K, filed with the Commission on July 3, 2007.

**AMENDED AND RESTATED  
CERTIFICATE OF INCORPORATION  
OF  
PIPER JAFFRAY COMPANIES**

Piper Jaffray Companies, a corporation organized and existing under the laws of the State of Delaware (the "Corporation"), does hereby certify as follows:

1. The name of the Corporation is "Piper Jaffray Companies." The Corporation was originally incorporated under the name "Piper Jaffray & Co.", and the original Certificate of Incorporation was filed with the Secretary of State of the State of Delaware on April 28, 2003.
2. This Amended and Restated Certificate of Incorporation ("Certificate of Incorporation") was duly adopted in accordance with Section 245 of the General Corporation Law of the State of Delaware. Pursuant to Section 242 of the General Corporation Law of the State of Delaware, the amendments and restatement herein set forth have been duly adopted by the Board of Directors and the stockholders of the Corporation.
3. Pursuant to Section 245 of the General Corporation Law of the State of Delaware, this Certificate of Incorporation restates and integrates and amends the provisions of the Certificate of Incorporation of this Corporation.
4. Pursuant to Section 103(d) of the General Corporation Law of the State of Delaware, this Certificate of Incorporation shall become effective at 5:00 p.m., Wilmington, Delaware time on May 2, 2007.
5. The text of the Certificate of Incorporation is hereby restated and amended to read in its entirety as follows:

**ARTICLE I  
NAME**

The name of the corporation (which is hereinafter referred to as the "Corporation") is:

Piper Jaffray Companies

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**ARTICLE II**  
**REGISTERED OFFICE**

The registered office of the Corporation in the State of Delaware shall be in the City of Wilmington, County of New Castle, and the name and address of the Registered Agent in charge thereof shall be The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle County, Delaware 19801.

**ARTICLE III**  
**PURPOSE**

The purpose of the Corporation shall be to engage in any lawful act or activity for which corporations may be organized and incorporated under the General Corporation Law of the State of Delaware.

**ARTICLE IV**  
**STOCK**

Section 1. Authorization. The Corporation shall be authorized to issue 105,000,000 shares of capital stock, of which 100,000,000 shares shall be shares of Common Stock, par value \$0.01 per share ("Common Stock"), and 5,000,000 shares shall be shares of Preferred Stock, par value \$0.01 per share ("Preferred Stock").

Section 2. Preferred Stock Rights. Shares of Preferred Stock may be issued from time to time in one or more series. The Board of Directors of the Corporation (the "Board of Directors") is hereby authorized by resolution or resolutions to fix the voting rights, if any, designations, powers, preferences and the relative, participation, optional or other rights, if any, and the qualifications, limitations or restrictions thereof, of any unissued series of Preferred Stock; and to fix the number of shares constituting such series, and to increase or decrease the number of shares of any such series (but not below the number of shares thereof then outstanding).

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## SERIES A JUNIOR PARTICIPATING PREFERRED STOCK

1. Designation and Amount. The shares of the series of Preferred Stock shall be designated as "Series A Junior Participating Preferred Stock" (the "Series A Preferred Stock") and the number of shares constituting the Series A Preferred Stock shall be 1,000,000. Such number of shares may be increased or decreased by resolution of the Board of Directors; provided, that no decrease shall reduce the number of shares of Series A Preferred Stock to a number less than the number of shares then outstanding plus the number of shares reserved for issuance upon the exercise of outstanding options, rights or warrants or upon the conversion of any outstanding securities issued by the Corporation convertible into Series A Preferred Stock.

### 2. Dividends and Distributions.

(A) Subject to the rights of the holders of any shares of any series of Preferred Stock (or any similar stock) ranking prior and superior to the Series A Preferred Stock with respect to dividends, the holders of shares of Series A Preferred Stock, in preference to the holders of Common Stock, of the Corporation, and of any other junior stock, shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the first day of March, June, September and December in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series A Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (a) \$1 or (b) subject to the provision for adjustment hereinafter set forth, 100 times the aggregate per share amount of all cash dividends, and 100 times the aggregate per share amount (payable in kind) of all non cash dividends or other distributions, other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock since the immediately preceding Quarterly Dividend Payment Date or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series A Preferred Stock. In the event the Corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event under clause (b) of the preceding sentence shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) The Corporation shall declare a dividend or distribution on the Series A Preferred Stock as provided in paragraph (A) of this Section immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock); provided that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of \$1 per share on the Series A Preferred Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

(C) Dividends shall begin to accrue and be cumulative on outstanding shares of Series A Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series A Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series A Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share by share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series A Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be not more than 60 days prior to the date fixed for the payment thereof.

3. Voting Rights. The holders of shares of Series A Preferred Stock shall have the following voting rights:

(A) Subject to the provision for adjustment hereinafter set forth, each share of Series A Preferred Stock shall entitle the holder thereof to 100 votes on all matters submitted to a vote of the stockholders of the Corporation. In the event the Corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the number of votes per share to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) Except as otherwise provided herein, in any other Certificate of Designations creating a series of Preferred Stock or any similar stock, or by law, the holders of shares of Series A Preferred Stock and the holders of shares of Common Stock and any other capital stock of the Corporation having general voting rights shall vote together as one class on all matters submitted to a vote of stockholders of the Corporation.

(C) Except as set forth herein, or as otherwise provided by law, holders of Series A Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

#### 4. Certain Restrictions.

(A) Whenever quarterly dividends or other dividends or distributions payable on the Series A Preferred Stock as provided in Section 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series A Preferred Stock outstanding shall have been paid in full, the Corporation shall not:

(i) declare or pay dividends, or make any other distributions, on any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock;

(ii) declare or pay dividends, or make any other distributions, on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock, except dividends paid ratably on the Series A Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) redeem or purchase or otherwise acquire for consideration shares of any stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock, provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such junior stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series A Preferred Stock; or

(iv) redeem or purchase or otherwise acquire for consideration any shares of Series A Preferred Stock, or any shares of stock ranking on a parity with the Series A Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(B) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under paragraph (A) of this Section 4, purchase or otherwise acquire such shares at such time and in such manner.

5. Reacquired Shares. Any shares of Series A Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and cancelled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preferred Stock and may be reissued as part of a new series of Preferred Stock subject to the conditions and restrictions on issuance set forth herein, in the Certificate of Incorporation, or in any other Certificate of Designations creating a series of Preferred Stock or any similar stock or as otherwise required by law.

6. Liquidation, Dissolution or Winding Up. Upon any liquidation, dissolution or winding up of the Corporation, no distribution shall be made (1) to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock unless, prior thereto, the holders of shares of Series A Preferred Stock shall have received \$100 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment, provided that the holders of shares of Series A Preferred Stock shall be entitled to receive an aggregate amount per share, subject to the provision for adjustment hereinafter set forth, equal to 100 times the aggregate amount to be distributed per share to holders of shares of Common Stock, or (2) to the holders of shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock, except distributions made ratably on the Series A Preferred Stock and all such parity stock in proportion to the total amounts to which the holders of all such shares are entitled upon such liquidation, dissolution or winding up. In the event the Corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the aggregate amount to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event under the proviso in clause (1) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

7. Consolidation, Merger, etc. In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case each share of Series A Preferred Stock shall at the same time be similarly exchanged or changed into an amount per share, subject to the provision for adjustment hereinafter set forth, equal to 100 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. In the event the Corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series A Preferred Stock shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

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8. No Redemption. The shares of Series A Preferred Stock shall not be redeemable.

9. Rank. The Series A Preferred Stock shall rank, with respect to the payment of dividends and the distribution of assets, junior to all series of any other class of the Corporation's Preferred Stock.

10. Amendment. The Certificate of Incorporation of the Corporation shall not be amended in any manner which would materially alter or change the powers, preferences or special rights of the Series A Preferred Stock so as to affect them adversely without the affirmative vote of the holders of at least two thirds of the outstanding shares of Series A Preferred Stock, voting together as a single class.

Section 3. Common Stock Voting Rights. Except as otherwise provided by law or by the resolution or resolutions adopted by the Board of Directors designating the rights, power and preferences of any series of Preferred Stock, the Common Stock shall have the exclusive right to vote for the election of directors and for all other purposes. Each share of Common Stock shall have one vote, and the Common Stock shall vote together as a single class.

## ARTICLE V

### BOARD OF DIRECTORS

Section 1. Number of Directors. Except as otherwise provided by the resolution or resolutions adopted by the Board of Directors designating the rights, powers and preferences of any series of Preferred Stock, the number of directors of the Corporation shall be fixed, and may be increased or decreased from time to time, exclusively by resolution of the Board of Directors.

Section 2. Written Ballot. Unless and except to the extent that the Bylaws of the Corporation shall so require, the election of directors of the Corporation need not be by written ballot.

Section 3. Vacancies. Except as otherwise provided by the resolution or resolutions adopted by the Board of Directors designating the rights, powers and preferences of any series of Preferred Stock, newly created directorships resulting from any increase in the authorized number of directors or any vacancies in the Board of Directors resulting from death, resignation, retirement, disqualification, removal from office or other cause shall be filled solely by the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum of the Board of Directors, or by the sole remaining director. Any director so chosen shall hold office until his or her successor shall be elected and qualified. No decrease in the number of directors shall shorten the term of any incumbent director.

**ARTICLE VI**  
**AMENDING THE BYLAWS**

In furtherance and not in limitation of the powers conferred by law, the Board of Directors is expressly authorized and empowered to adopt, amend and repeal the Bylaws of the Corporation at any regular or special meeting of the Board of Directors or by written consent, subject to the power of the stockholders of the Corporation to adopt, amend or repeal any Bylaws.

**ARTICLE VII**  
**AMENDING THE CERTIFICATE OF INCORPORATION**

The Corporation reserves the right at any time from time to time to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, and any other provisions authorized by the laws of the State of Delaware at the time in force may be added or inserted, in the manner now or hereafter prescribed by law. All rights, preferences and privileges of whatsoever nature conferred upon stockholders, directors or any other persons whomsoever by and pursuant to this Certificate of Incorporation in its present form or as hereafter amended are granted subject to the right reserved in this Article.

**ARTICLE VIII**  
**DIRECTOR LIABILITY; INDEMNIFICATION AND INSURANCE**

Section 1. Elimination of Certain Liability of Directors. The personal liability of the directors of the Corporation shall be eliminated to the fullest extent permitted by law. No amendment, modification or repeal of this Article, adoption of any provision in this Certificate of Incorporation, or change in the law or interpretation of the law shall adversely affect any right or protection of a director or officer of the Corporation under this Article VIII with respect to any act or omission that occurred prior to the time of such amendment, modification, repeal, adoption or change.

## Section 2. Indemnification and Insurance.

(a) Right to Indemnification. Each person who was or is made a party or is threatened to be made a party to or is involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she, or a person of whom he or she is the legal representative, is or was a director or officer of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether the basis of such proceeding is alleged action in an official capacity as a director, officer, employee or agent or in any other capacity while serving as a director, officer, employee or agent, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the General Corporation Law of the State of Delaware, as the same exists or may hereafter be amended (but, in the case of any such amendment, to the fullest extent permitted by law, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said law permitted the Corporation to provide prior to such amendment), against all expense, liability and loss (including attorneys' fees, judgments, fines, amounts paid or to be paid in settlement, and excise taxes or penalties arising under the Employee Retirement Income Security Act of 1974) reasonably incurred or suffered by such person in connection therewith and such indemnification shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of his or her heirs, executors and administrators; provided, however, that, except as provided in paragraph (b) this section, the Corporation shall indemnify any such person seeking indemnification in connection with a proceeding (or part thereof) initiated by such person only if such proceeding (or part thereof) was authorized by the Board. The right to indemnification conferred in this Section shall be a contract right and shall include the right to be paid by the Corporation the expenses incurred in defending any such proceeding in advance of its final disposition; provided, however, that, if the General Corporation Law of the State of Delaware requires, the payment of such expenses incurred by a director or officer in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such person while a director or officer, including, without limitation, service to an employee benefit plan) in advance of the final disposition of a proceeding, shall be made only upon delivery to the Corporation of an undertaking, by or on behalf of such director or officer, to repay all amounts so advanced if it shall ultimately be determined that such director or officer is not entitled to be indemnified under this Section or otherwise. The Corporation may, by action of the Board, provide indemnification to employees and agents of the Corporation with the same scope and effect as the foregoing indemnification of directors and officers.

(b) Right of Claimant to Bring Suit. If a claim under paragraph (a) of this Section is not paid in full by the Corporation within thirty days after a written claim has been received by the Corporation, the claimant may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall be entitled to be paid also the expense of prosecuting such claim. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking, if any is required, has been tendered to the Corporation) that the claimant has not met the standards of conduct which make it permissible under the General Corporation Law of the State of Delaware for the Corporation to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the Corporation. Neither the failure of the Corporation (including its Board, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he or she has met the applicable standard of conduct set forth in the General Corporation Law of the State of Delaware, nor an actual determination by the Corporation (including its Board, independent legal counsel, or its stockholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

(c) Non-Exclusivity of Rights. The right to indemnification and the payment of expenses incurred in defending a proceeding in advance of its final disposition conferred in this Section shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, provision of the Certificate of Incorporation (as it may be amended from time to time), Bylaw, agreement, vote of stockholders or disinterested directors or otherwise.

Section 3. Insurance. The Corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the Corporation or another corporation, partnership, joint venture, trust or other enterprise against any such expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the General Corporation Law of the State of Delaware.

## **ARTICLE IX**

### **STOCKHOLDER MEETINGS**

Any action required or permitted to be taken by stockholders may be effected only at a duly called annual or special meeting of stockholders and may not be effected by a written consent or consents by stockholders in lieu of such a meeting.

Except as otherwise required by law or provided by the resolution or resolutions adopted by the Board of Directors designating the rights, powers and preferences of any series of Preferred Stock, special meetings of stockholders of the Corporation may be called only by (a) the Board of Directors pursuant to a resolution approved by a majority of the entire Board of Directors or (b) the Chairman of the Board of Directors, and any power of stockholders to call a special meeting is specifically denied.

## **ARTICLE X**

### **SUPERMAJORITY AMENDMENT**

Notwithstanding any other provisions of this Certificate of Incorporation or the Bylaws (and notwithstanding that a lesser percentage may be specified by law), the provisions of Article IX and this Article X hereof may not be altered, amended or repealed unless such alteration, amendment or repeal is approved by the affirmative vote of the holders of not less than eighty percent (80%) of the voting power of all of the outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors, considered for purposes of this Article X as a single class.

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IN WITNESS WHEREOF, Piper Jaffray Companies has caused this Amended and Restated Certificate of Incorporation to be executed by James L. Chosy, its Secretary, this 2nd day of May, 2007.

/s/ James L. Chosy

Name: James L. Chosy

Title: Secretary

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**AMENDED AND RESTATED**  
**BYLAWS**  
**OF**  
**PIPER JAFFRAY COMPANIES**  
Incorporated under the Laws of the State of Delaware  
**As of May 2, 2007**

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## **ARTICLE I OFFICES**

SECTION 1.1 Principal Delaware Office. The registered office of the Corporation in the State of Delaware shall be in the City of Wilmington, County of New Castle, and the name and address of the Registered Agent in charge thereof shall be Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle County, Delaware 19801.

SECTION 1.2 Other Offices. The Corporation may also have offices in such other places, either within or without the State of Delaware, as the Board of Directors from time to time may designate or the business of the Corporation may from time to time require.

## **ARTICLE II STOCKHOLDERS**

### SECTION 2.1 Meetings of Stockholders.

(a) Annual Meetings. The annual meeting of the stockholders of the Corporation shall be held on such date and at such time as may be fixed by resolution of the Board of Directors. At the annual meeting stockholders shall elect directors and transact such other business as properly may be brought before the meeting.

(b) Special Meetings. Special meetings of the stockholders may be called only by the Chairman of the Board or the Board of Directors pursuant to a resolution approved by a majority of the total number of directors which the Corporation would have if there were no vacancies (the "Whole Board").

(c) Place of Meetings. Meetings of the stockholders shall be held at such place, either within or without the State of Delaware, as the Board of Directors shall determine.

(d) Notice of Meeting. Written notice, stating the place, day and hour of the meeting shall be delivered by the Corporation not less than ten (10) days nor more than sixty (60) days before the date of the meeting to each stockholder of record entitled to vote at such meeting. Notice of a special meeting shall also state the purpose or purposes for which the meeting has been called. Without limiting the manner by which notice may otherwise be given, notice may be given by a form of electronic transmission that satisfies the requirements of the Delaware General Corporation Law and has been consented to by the stockholder to whom notice is given. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail with postage thereon prepaid, addressed to the stockholder at his or her address as it appears in the Corporation's records. Meetings may be held without notice if all stockholders entitled to vote are present, or if notice is waived by those not present in accordance with Article VIII of these Bylaws. Any previously scheduled meeting of the stockholders may be postponed, and any special meeting of the stockholders may be cancelled, by resolution of the Board of Directors upon public notice given prior to the date previously scheduled for such meeting of stockholders. Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting (or any supplement thereto).

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(e) Chairman of Stockholder's Meeting. The Chairman of the Board, or in the Chairman's absence, a Vice Chairman, or in the absence of any Vice Chairman, the Chief Executive Officer, or in the absence of the Chief Executive Officer, the Secretary, or in the absence of the Secretary, a chairman chosen by a majority of the directors present, shall act as chairman of the meetings of the stockholders.

SECTION 2.2 Quorum of Stockholders; Adjournment; Required Vote.

(a) Quorum of Stockholders; Adjournment. Except as otherwise provided by law, by the Amended and Restated Certificate of Incorporation (the "Certificate of Incorporation") or by these Bylaws, the holders of a majority of the voting power of the outstanding shares of the Corporation entitled to vote generally in the election of directors (the "Voting Stock"), present in person or represented by proxy, shall constitute a quorum at a meeting of the stockholders, except that when specified business is to be voted on by a class or series of stock voting as a class, the holders of a majority of the shares of such class or series shall constitute a quorum of such class or series for the transaction of such business. The chairman of the meeting or a majority of the shares so represented may adjourn the meeting from time to time, whether or not there is such a quorum. No notice of the time and place of adjourned meetings need be given, except that notice of the adjourned meeting shall be required if the adjournment is for more than 30 days or if after the adjournment a new record date is fixed for the adjourned meeting. The stockholders present at a duly called meeting at which a quorum is present may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum.

(b) Required Vote. The affirmative vote of a majority of the voting power of the shares present in person or represented by proxy at the meeting and entitled to vote on the matter shall be the act of the stockholders, except as otherwise provided by express provision of law, Certificate of Incorporation or these Bylaws requiring a larger or different vote, in which case such express provision shall govern and control the decision of such matter.

SECTION 2.3 Voting by Stockholders; Procedures for Election of Directors.

(a) Voting by Stockholders. Each stockholder of record entitled to vote at any meeting may do so in person or by proxy appointed by instrument in writing or in such other manner prescribed by the Delaware General Corporation Law, subscribed by such stockholder or his or her duly authorized attorney in fact.

(b) Procedure for Election of Directors. Election of directors at all meetings of the stockholders at which directors are to be elected shall be by ballot, and, subject to the rights of the holders of any series of Preferred Stock to elect directors under specified circumstances, a plurality of the votes cast thereat shall elect directors.

SECTION 2.4 Notice of Stockholder Business and Nominations.

(a) Annual Meetings of Stockholders. (1) Nominations of persons for election to the Board of Directors of the Corporation and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders (A) pursuant to the Corporation's notice of meeting, (B) by or at the direction of the Board of Directors, or (C) by any stockholder of the Corporation who was a stockholder of record at the time of giving of notice provided for in this Bylaw, who is entitled to vote at the meeting and who complies with the notice procedures set forth in this Bylaw.

(2) For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (C) of paragraph (a)(1) of this Bylaw, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation and such other business must otherwise be a proper matter for stockholder action. To be timely, a stockholder's notice shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the 90th day nor earlier than the close of business on the 120th day prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is more than 30 days before or more than 60 days after such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made by the Corporation. In no event shall the public announcement of an adjournment of an annual meeting commence a new time period for the giving of a stockholder's notice as described above. Such stockholder's notice shall set forth (A) as to each person whom the stockholder proposes to nominate for election or reelection as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Rule 14a 11 thereunder (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (B) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (C) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such stockholder, as they appear on the Corporation's books, and of such beneficial owner and (ii) the class and number of shares of the Corporation which are owned beneficially and of record by such stockholder and such beneficial owner.

(3) Notwithstanding anything in the second sentence of paragraph (a)(2) of this Bylaw to the contrary, in the event that the number of directors to be elected to the Board of Directors of the Corporation is increased and there is no public announcement by the Corporation naming all of the nominees for director or specifying the size of the increased Board of Directors at least 100 days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice required by this Bylaw shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the 10th day following the day on which such public announcement is first made by the Corporation.

(b) Special Meetings of Stockholders. The business to be transacted at any special meeting shall be limited to the purposes stated in the notice of such meetings. Nominations of persons for election to the Board of Directors may be made at a special meeting of stockholders at which directors are to be elected pursuant to the Corporation's notice of meeting (1) by or at the direction of the Board of Directors or (2) provided that the Board of Directors has determined that directors shall be elected at such meeting, by any stockholder of the Corporation who is a stockholder of record at the time of giving of notice provided for in this Bylaw, who shall be entitled to vote at the meeting and who complies with the notice procedures set forth in this Bylaw. In the event the Corporation calls a special meeting of stockholders for the purpose of electing one or more directors to the Board of Directors, any such stockholder may nominate a person or persons (as the case may be), for election to such position(s) as specified in the Corporation's notice of meeting, if the stockholder's notice required by paragraph (a)(2) of this Bylaw shall be delivered to the Secretary at the principal executive offices of the Corporation not earlier than the close of business on the 120th day prior to such special meeting and not later than the close of business on the later of the 90th day prior to such special meeting or the 10th day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting. In no event shall the public announcement of an adjournment of a special meeting commence a new time period for the giving of a stockholder's notice as described above.

(c) General. (1) Only such persons who are nominated in accordance with the procedures set forth in this Bylaw shall be eligible to serve as directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Bylaw. Except as otherwise provided by law, the Certificate of Incorporation or these Bylaws, the chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the procedures set forth in this Bylaw and, if any proposed nomination or business is not in compliance with this Bylaw, to declare that such defective proposal or nomination shall be disregarded.

(2) For purposes of this Bylaw, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

(3) Notwithstanding the foregoing provisions of this Bylaw, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Bylaw. Nothing in this Bylaw shall be deemed to affect any rights (A) of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a 8 under the Exchange Act or (B) of the holders of any series of Preferred Stock to elect directors under specified circumstances.

SECTION 2.5 Inspectors of Elections; Opening and Closing the Polls. The Board of Directors by resolution shall appoint one or more inspectors, which inspector or inspectors may include individuals who serve the Corporation in other capacities, including, without limitation, as officers, employees, agents or representatives, to act at the meetings of stockholders and make a written report thereof. One or more persons may be designated as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate has been appointed to act or is able to act at a meeting of stockholders, the chairman of the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before discharging his or her duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his or her ability. The inspectors shall have the duties prescribed by law.

The chairman of the meeting shall fix and announce at the meeting the date and time of the opening and the closing of the polls for each matter upon which the stockholders will vote at the meeting.

SECTION 2.6 No Stockholder Action by Written Consent. Any action required or permitted to be taken by stockholders may be effected only at a duly called annual or special meeting of stockholders and may not be effected by a written consent or consents by stockholders in lieu of such a meeting of stockholders.

### **ARTICLE III BOARD OF DIRECTORS**

SECTION 3.1 General Powers. The business and affairs of the Corporation shall be managed under the direction of the Board of Directors. In addition to the powers and authorities by these Bylaws expressly conferred upon them, the Board of Directors may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the Certificate of Incorporation or by these Bylaws required to be exercised or done by the stockholders.

SECTION 3.2 Number, Tenure and Qualifications. Subject to the rights of the holders of any series of Preferred Stock to elect directors under specified circumstances, the number of directors of the Corporation shall be fixed, and may be increased or decreased from time to time, exclusively by resolution approved by the affirmative vote of a majority of the Whole Board. The directors shall hold office until their successors are elected and qualified. At each annual meeting of the stockholders of the Corporation, the directors whose term expires at that meeting shall be elected for a term expiring at the next annual meeting of stockholders.

SECTION 3.3 Regular Meetings. A regular meeting of the Board of Directors may be held without other notice than this Bylaw immediately after, and at the same place as, the Annual Meeting of Stockholders. The Board of Directors may, by resolution, provide the time and place for the holding of additional regular meetings without other notice than such resolution.

SECTION 3.4 Special Meetings. Special meetings of the Board of Directors may be called at the request of the Chairman of the Board, the Chief Executive Officer or a majority of the Board of Directors then in office. The person or persons authorized to call special meetings of the Board of Directors may fix the place and time of the meetings. Notice of any special meeting shall be given to each director and shall state the time and place for the special meeting.

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SECTION 3.5 Notice. If notice of a Board of Directors' meeting is required to be given, notice of shall be given to each director at his or her business or residence in writing by hand delivery, first-class or overnight mail or courier service, electronic transmission (including, without limitation, via facsimile transmission or electronic mail), or orally by telephone. If mailed by first-class mail, such notice shall be deemed adequately delivered when deposited in the United States mails so addressed, with postage thereon prepaid, no later than the third business day preceding the date of such meeting. If by overnight mail or courier service, such notice shall be deemed adequately delivered when the notice is delivered to the overnight mail or courier service company at least twenty-four (24) hours before such meeting. If by electronic transmission, such notice shall be deemed adequately delivered when the notice is transmitted at least twelve (12) hours before such meeting. If by telephone or by hand delivery, the notice shall be given at least twelve (12) hours prior to the time set for the meeting. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board of Directors need be specified in the notice of such meeting, except for amendments to these Bylaws, as provided under Article IX of these Bylaws. A meeting may be held at any time without notice if all the directors are present or if those not present waive notice of the meeting in accordance with Article VIII of these Bylaws.

SECTION 3.6 Quorum. Subject to Section 3.10 of these Bylaws, a whole number of directors equal to at least a majority of the Whole Board shall constitute a quorum for the transaction of business, but if at any meeting of the Board of Directors there shall be less than a quorum present, a majority of the directors present may adjourn the meeting from time to time without further notice. The act of the majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors. The directors present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough directors to leave less than a quorum.

SECTION 3.7 Use of Communications Equipment. Directors may participate in a meeting of the Board of Directors or any committee thereof by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

SECTION 3.8 Action by Consent of Board of Directors. Any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting if all members of the Board or committee, as the case may be, consent thereto in writing or by electronic transmission, and the writing or writings or electronic transmission or transmissions are filed with the minutes of proceedings of the Board or committee.

SECTION 3.9 Removal. Subject to the rights of the holders of any series of Preferred Stock with respect to such series of Preferred Stock, any director, or the entire Board of Directors, may be removed from office at any time, with or without cause, but only by the affirmative vote of the holders of a majority of the voting power of all of the then-outstanding shares of Voting Stock, voting together as a single class.

SECTION 3.10 Vacancies. Subject to applicable law and the rights of the holders of any series of Preferred Stock with respect to such series of Preferred Stock, and unless the Board of Directors otherwise determines, vacancies resulting from death, resignation, retirement, disqualification, removal from office or other cause, and newly created directorships resulting from any increase in the authorized number of directors, may be filled only by the affirmative vote of a majority of the remaining directors, though less than a quorum of the Board of Directors, or by the sole remaining director, and directors so chosen shall hold office for a term expiring at the next annual meeting of stockholders and until such director's successor shall have been duly elected and qualified. No decrease in the number of authorized directors constituting the Whole Board shall shorten the term of any incumbent director.

SECTION 3.11 Committees. The Board of Directors may, by resolution adopted by a majority of the Whole Board, designate one or more committees, each of which shall consist of one or more directors. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of any member of such committee or committees, the member or members thereof present at any meeting and not disqualified from voting, whether or not constituting a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member.

Any committee shall, to the extent provided in a resolution of the Board of Directors and subject to the limitations contained in the Delaware General Corporation Law, have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation. Each committee shall keep such records and report to the Board of Directors in such manner as the Board of Directors may from time to time determine. Except as the Board of Directors may otherwise determine, any committee may make rules for the conduct of its business. Unless otherwise provided in a resolution of the Board of Directors or in rules adopted by the committee, each committee shall conduct its business as nearly as possible in the same manner as provided in these Bylaws for the Board of Directors.

The Board of Directors shall have power at any time to fill vacancies in, to change the membership of, or to dissolve any such committee. The term of office of the members of each committee shall be as fixed from time to time by the Board of Directors; provided, however, that any committee member who ceases to be a member of the Board of Directors shall automatically cease to be a committee member.

Nothing herein shall be deemed to prevent the Board of Directors from appointing one or more committees consisting in whole or in part of persons who are not directors of the Corporation; provided, however, that no such committee shall have or may exercise any authority of the Board of Directors.

#### **ARTICLE IV BOOKS AND RECORDS**

SECTION 4.1 The Board of Directors shall cause to be kept a record containing the minutes of the proceedings of the meetings of the Board and of the stockholders, appropriate stock books and registers and such books of records and accounts as may be necessary for the proper conduct of the business of the Corporation. Unless otherwise required by the laws of Delaware, the books and records of the Corporation may be kept at the principal office of the Corporation, or at any other place or places inside or outside the State of Delaware, as the Board of Directors from time to time may designate.

## **ARTICLE V OFFICERS**

**SECTION 5.1 Officers; Election or Appointment.** The Board of Directors shall take such action as may be necessary from time to time to ensure that the Corporation has such officers as are necessary, under Section 6.1 of these Bylaws and the Delaware General Corporation Law as currently in effect or as the same may hereafter be amended, to enable it to sign stock certificates. In addition, the Board of Directors at any time and from time to time may elect (a) one or more Chairmen of the Board and/or one or more Vice Chairmen of the Board from among its members, (b) one or more Chief Executive Officers, one or more Presidents and/or one or more Chief Operating Officers, (c) one or more Vice Presidents, one or more Treasurers and/or one or more Secretaries and/or (d) one or more other officers, in each case if and to the extent the Board of Directors deems desirable. The Board of Directors may give any officer such further designations or alternate titles as it considers desirable. In addition, the Board of Directors at any time and from time to time may authorize the Chairman of the Board or the Chief Executive Officer of the Corporation to appoint one or more officers of the kind described in clauses (c) and (d) above. Any number of offices may be held by the same person and directors may hold any office unless the Certificate of Incorporation or these Bylaws otherwise provide.

**SECTION 5.2 Term of Office; Resignation; Removal; Vacancies.** Unless otherwise provided in the resolution of the Board of Directors electing or authorizing the appointment of any officer, each officer shall hold office until his or her successor is elected or appointed and qualified or until his or her earlier resignation or removal. Any officer may resign at any time upon written notice to the Board of Directors or to such person or persons as the Board of Directors may designate. Such resignation shall take effect at the time specified therein, and unless otherwise specified therein no acceptance of such resignation shall be necessary to make it effective. The Board of Directors may remove any officer with or without cause at any time. The Chairman of the Board or the Chief Executive Officer authorized by the Board of Directors to appoint a person to hold an office of the Corporation may also remove such person from such office with or without cause at any time, unless otherwise provided in the resolution of the Board providing such authorization. Any such removal shall be without prejudice to the contractual rights of such officer, if any, with the Corporation, but the election or appointment of an officer shall not of itself create contractual rights. Any vacancy occurring in any office of the Corporation by death, resignation, removal or otherwise may be filled by the Board of Directors at any regular or special meeting or by the Chairman of the Board or the Chief Executive Officer authorized by the Board of Directors to appoint a person to hold such office.

**SECTION 5.3 Powers and Duties.** The officers of the Corporation shall have such powers and duties in the management of the Corporation as shall be stated in these Bylaws or in a resolution of the Board of Directors which is not inconsistent with these Bylaws and, to the extent not so stated, as generally pertain to their respective offices, subject to the control of the Board of Directors. A Secretary or such other officer appointed to do so by the Board of Directors shall have the duty to record the proceedings of the meetings of the stockholders, the Board of Directors and any committees in a book to be kept for that purpose.

**ARTICLE VI  
STOCK CERTIFICATES**

SECTION 6.1 Stock Certificates. The Board of Directors may authorize the issuance of stock either in certificated or in uncertificated form. If shares are issued in uncertificated form, each stockholder shall be entitled upon written request to a stock certificate or certificates duly numbered, certifying the number and class of shares in the Corporation owned by him and otherwise as specified in this Section 6.1. Each certificate for shares of stock shall be in such form as may be prescribed by the Board of Directors and shall be signed in the name of the Corporation by (a) the Chairman of the Board, the Chief Executive Officer or a Vice President, and (b) by the Secretary or an Assistant Secretary or the Treasurer or an Assistant Treasurer. Any or all of the signatures on a certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he or she were such officer, transfer agent or registrar at the date of issue. Each certificate will include any legends required by law or deemed necessary or advisable by the Board.

SECTION 6.2 Lost Certificates. No certificate for shares of stock in the Corporation shall be issued in place of any certificate alleged to have been lost, destroyed or stolen, except on production of such evidence of such loss, destruction or theft and on delivery to the Corporation of a bond of indemnity in such amount, upon such terms and secured by such surety, as the Board of Directors or any financial officer of the Corporation may in its or his or her discretion require.

SECTION 6.3 Transfers of Stock. The shares of the stock of the Corporation shall be transferable on the books of the Corporation by the holder thereof in a person or by his or her attorney upon surrender for cancellation of a certificate or certificates for at least the same number of shares, or other evidence of ownership if no certificates shall have been issued, with an assignment and power of transfer endorsed thereon or attached thereto, duly executed, and with such proof of the validity and authenticity of the signature as the Corporation or its agents may reasonably require.

**ARTICLE VII  
DEPOSITARIES AND CHECKS**

SECTION 7.1 Depositaries of the funds of the Corporation shall be designated by the Board of Directors; and all checks on such funds shall be signed by such officers or other employees of the Corporation as the Board of Directors from time to time may designate.

**ARTICLE VIII  
WAIVER OF NOTICE**

SECTION 8.1 Any notice of a meeting required to be given by law, by the Certificate of Incorporation, or by these Bylaws may be waived by the person entitled thereto, either before or after the time of such meeting stated in such notice. Neither the business to be transacted at, nor the purpose of, any annual or special meeting of the stockholders or the Board of Directors or committee thereof need be specified in any waiver of notice of such meeting.

**ARTICLE IX  
AMENDMENT**

SECTION 9.1 These Bylaws may be altered, amended, or repealed at any meeting of the Board of Directors or of the stockholders, provided notice of the proposed change was given in the notice of the meeting; provided, however, that, in the case of any alteration, amendment or repeal by the Board of Directors, the affirmative vote of a majority of the Whole Board shall be required to alter, amend or repeal any provision of these Bylaws; and provided further, that, in the case of any alteration, amendment or repeal by the stockholders of any of the provisions of Section 2.1(b), Section 2.6, Section 3.1, Section 3.2, Section 3.9 or Section 3.10 or this Article IX of these Bylaws, the affirmative vote of the holders of not less than eighty percent (80%) of the voting power of all of the then-outstanding shares of Voting Stock, considered for purposes of this Article IX as a single class, shall be required to alter, amend or repeal any such provision.

**ARTICLE X  
INDEMNIFICATION AND INSURANCE**

SECTION 10.1 Right to Indemnification. Each person who was or is made a party or is threatened to be made a party to or is involved in any action, suit, claim or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she or a person of whom he or she is the legal representative is or was a director or officer of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans maintained or sponsored by the Corporation, whether the basis of such proceeding is alleged action in an official capacity as a director, officer, employee or agent or in any other capacity while serving as a director, officer, employee or agent, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the Delaware General Corporation Law as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said law permitted the Corporation to provide prior to such amendment), against all expense, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by such person in connection therewith and such indemnification shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of his or her heirs, executors and administrators; provided, however, that except as provided in Section 10.4 of this Article X, the Corporation shall indemnify any such person seeking indemnification in connection with a proceeding (or part thereof) initiated by such person only if such proceeding (or part thereof) was authorized by the Board of Directors.

SECTION 10.2 Advancement of Expenses. The right to indemnification conferred in this Article X shall be a contract right and shall include the right to be paid by the Corporation the expenses incurred in defending any such proceeding in advance of its final disposition, such advances to be paid by the Corporation within 20 days after receipt by the Corporation of a written statement or statements from the claimant requesting such advance or advances; provided, however, that if the Delaware General Corporation Law requires, the payment of such expenses incurred by a director or officer in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such person while a director or officer, including, without limitation, service to an employee benefit plan) in advance of the final disposition of a proceeding, shall be made only upon delivery to the Corporation of an undertaking by or on behalf of such director or officer, to repay all amounts so advanced if it shall ultimately be determined that such director or officer is not entitled to be indemnified under this Article X or otherwise.

SECTION 10.3 Obtaining Indemnification. To obtain indemnification under this Article X, a claimant shall submit to the Corporation a written request, including therein or therewith such documentation and information as is reasonably available to the claimant and is reasonably necessary to determine whether and to what extent the claimant is entitled to indemnification. Upon written request by a claimant for indemnification pursuant to the first sentence of this Section 10.3, a determination, if required by applicable law, with respect to the claimant's entitlement thereto shall be made as follows: (1) if requested by the claimant, by Independent Counsel (as hereinafter defined), or (2) if no request is made by the claimant for a determination by Independent Counsel, (i) by the Board of Directors by a majority vote of a quorum consisting of Disinterested Directors (as hereinafter defined), or (ii) if a quorum of the Board of Directors consisting of Disinterested Directors is not obtainable or, even if obtainable, such quorum of Disinterested Directors so directs, by Independent Counsel in a written opinion to the Board of Directors, a copy of which shall be delivered to the claimant, or (iii) if a quorum of Disinterested Directors so directs, by the stockholders of the Corporation. In the event the determination of entitlement to indemnification is to be made by Independent Counsel at the request of the claimant, the Independent Counsel shall be selected by the Board of Directors unless there shall have occurred within two years prior to the date of the commencement of the action, suit or proceeding for which indemnification is claimed a Change in Control (as defined below), in which case the Independent Counsel shall be selected by the claimant unless the claimant shall request that such selection be made by the Board of Directors. If it is so determined that the claimant is entitled to indemnification, payment to the claimant shall be made within 30 days after such determination. If a claimant is successful, in whole or in part, in any suit brought against the Corporation to recover the unpaid amount of any written claim to indemnification, the claimant shall be entitled to be paid also the expense of prosecuting such claim.

SECTION 10.4 Right of Claimant to Bring Suit. If a claim under Section 10.1 of this Article X is not paid in full by the Corporation within thirty days after a written claim pursuant to Section 10.3 of this Article X has been received by the Corporation, the claimant may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall be entitled to be paid also the expense of prosecuting such claim. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking, if any is required, has been tendered to the Corporation) that the claimant has not met the standard of conduct which makes it permissible under the Delaware General Corporation Law for the Corporation to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the Corporation. Neither the failure of the Corporation (including its Board of Directors, Independent Counsel or stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he or she has met the applicable standard of conduct set forth in the Delaware General Corporation Law, nor an actual determination by the Corporation (including its Board of Directors, Independent Counsel or stockholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

SECTION 10.5 Corporation's Obligation to Indemnify. If a determination shall have been made pursuant to Section 10.3 of this Article X that the claimant is entitled to indemnification, the Corporation shall be bound by such determination in any judicial proceeding commenced pursuant to Section 10.4 of this Article X.

SECTION 10.6 Preclusion from Challenging Article X. The Corporation shall be precluded from asserting in any judicial proceeding commenced pursuant to Section 10.4 of this Article X that the procedures and presumptions of this Article X are not valid, binding and enforceable and shall stipulate in such proceeding that the Corporation is bound by all the provisions of this Article X.

For purposes of this Article X:

(a) "Change in Control" shall be deemed to occur only if a majority of the members of the Board of Directors shall not be (i) individuals elected as directors of the Corporation for whose election proxies shall have been solicited by the Board of Directors of the Corporation or (ii) individuals elected or appointed by the Board of Directors of the Corporation to fill vacancies on the Board of Directors caused by death or resignation (but not by removal) or to fill newly created directorships.

(b) "Disinterested Director" means a director of the Corporation who is not and was not a party to the matter in respect of which indemnification is sought by the claimant.

(c) "Independent Counsel" means a law firm, a member of a law firm, or an independent practitioner, that is experienced in matters of corporation law and shall include any person who, under the applicable standards of professional conduct then prevailing, would not have a conflict of interest in representing either the Corporation or the claimant in an action to determine the claimant's rights under this Article X.

SECTION 10.7 Non-exclusivity of Rights. The right to indemnification and the payment of expenses incurred in defending a proceeding in advance of its final disposition conferred in this Article X shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, Bylaws, agreement, vote of stockholders or otherwise. No repeal or modification of this Article X shall in any way diminish or adversely affect the rights of any director, officer, employee or agent of the Corporation hereunder in respect of any occurrence or matter arising prior to any such repeal or modification.

SECTION 10.8 Insurance. The Corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the Corporation or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the Delaware General Corporation Law. To the extent that the Corporation maintains any policy or policies providing such insurance, each such director or officer, and each such agent or employee to which rights to indemnification have been granted as provided in Section 10.9 of this Article X, shall be covered by such policy or policies in accordance with its or their terms to the maximum extent of the coverage thereunder for any such director, officer, employee or agent.

SECTION 10.9 Other Employees and Agents. The Corporation may, to the extent authorized from time to time by the Board of Directors, grant rights to indemnification, and rights to be paid by the Corporation the expenses incurred in defending any proceeding in advance of its final disposition, to any employee or agent or class of employees or agents of the Corporation (including the heirs, executors, administrators or estate of each such person) to the fullest extent of the provisions of this Article X with respect to the indemnification and advancement of expenses of directors and officers of the Corporation.

SECTION 10.10 Validity of Article X. If any provision or provisions of this Article X shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (a) the validity, legality and enforceability of the remaining provisions of this Article X (including, without limitation, each portion of any paragraph of this Article X containing any such provision held to be invalid, illegal or unenforceable, that is not itself held to be invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby; and (b) to the fullest extent possible, the provisions of this Article X (including, without limitation, each such portion of any paragraph of this Article X containing any such provision held to be invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

## **ARTICLE XI MISCELLANEOUS PROVISIONS**

SECTION 11.1 Fiscal Year. The fiscal year of the Corporation shall begin on the first day of January and end on the thirty-first day of December of each year.

SECTION 11.2 Dividends. The Board of Directors may from time to time declare, and the Corporation may pay, dividends on its outstanding shares in the manner and upon the terms and conditions provided by law and the Certificate of Incorporation.

## 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: August 3, 2007

/s/ Andrew S. Duff

Andrew S. Duff  
Chairman and Chief Executive Officer

## 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: August 3, 2007

/s/ Thomas P. Schnettler

Thomas P. Schnettler

Vice Chairman and Chief Financial Officer

**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: August 3, 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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