PIPER JAFFRAY COMPANIES
Form 10-Q
August 04, 2011
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Quarterly Period Ended June 30, 2011

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 þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer: þ	Accelerated filer: ¨	Non-accelerated filer: ¨ (Do not check if a smaller reporting company)	Smaller reporting company: ¨

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

As of July 22, 2011, the registrant had 19,217,382 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

(Amounts in thousands, except share data)	**June 30, 2011** (Unaudited)	**December 31, 2010**
Assets		
Cash and cash equivalents	**$ 70,073**	$ 50,602
Cash and cash equivalents segregated for regulatory purposes	**30,006**	27,006
Receivables:		
Customers	**89,524**	42,955
Brokers, dealers and clearing organizations	**213,852**	188,798
Securities purchased under agreements to resell	**250,709**	258,997
Financial instruments and other inventory positions owned	**326,332**	358,344
Financial instruments and other inventory positions owned and pledged as collateral	**653,313**	515,806
Total financial instruments and other inventory positions owned	**979,645**	874,150
Fixed assets (net of accumulated depreciation and amortization of $56,205 and $57,777, respectively)	**22,191**	21,477
Goodwill	**322,650**	322,594
Intangible assets (net of accumulated amortization of $17,570 and $18,232, respectively)	**55,442**	59,580
Other receivables	**64,907**	54,098
Other assets	**122,550**	133,530
Total assets	**$ 2,221,549**	$ 2,033,787
Liabilities and Shareholders Equity		
Short-term financing	**$ 224,628**	$ 193,589
Bank syndicated financing	**120,000**	125,000
Payables:		
Customers	**69,190**	51,814
Brokers, dealers and clearing organizations	**21,735**	18,519
Securities sold under agreements to repurchase	**368,302**	239,880
Financial instruments and other inventory positions sold, but not yet purchased	**414,000**	365,747
Accrued compensation	**75,773**	147,729
Other liabilities and accrued expenses	**65,281**	73,408
Total liabilities	**1,358,909**	1,215,686
Shareholders equity:		
Common stock, $0.01 par value:		
Shares authorized: 100,000,000 at June 30, 2011 and December 31, 2010;		
Shares issued: 19,520,325 at June 30, 2011 and 19,509,813 at December 31, 2010;		
Shares outstanding: 15,866,854 at June 30, 2011 and 14,652,665 at December 31, 2010	**195**	195
Additional paid-in capital	**796,480**	836,152
Retained earnings	**197,482**	179,555
Less common stock held in treasury, at cost: 3,653,471 shares at June 30, 2011 and 4,857,148 shares at December 31, 2010	**(152,816)**	(203,317)
Other comprehensive income	**782**	727
Total common shareholders equity	**842,123**	813,312

Noncontrolling interests	**20,517**	4,789
Total shareholders equity	**862,640**	818,101
Total liabilities and shareholders equity	**$ 2,221,549**	$ 2,033,787

See Notes to the Consolidated Financial Statements

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Piper Jaffray Companies

Consolidated Statements of Operations

(Unaudited)

(Amounts in thousands, except per share data)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Revenues:				
Investment banking	**$ 67,062**	$ 71,745	**$ 114,103**	$ 115,493
Institutional brokerage	**37,170**	32,084	**85,401**	81,179
Asset management	**19,640**	15,873	**37,569**	25,027
Interest	**13,144**	14,313	**27,373**	27,762
Other income	**6,626**	3,495	**12,137**	6,422
Total revenues	**143,642**	137,510	**276,583**	255,883
Interest expense	**7,693**	9,857	**15,854**	18,644
Net revenues	**135,949**	127,653	**260,729**	237,239
Non-interest expenses:				
Compensation and benefits	**83,376**	77,678	**158,921**	142,774
Occupancy and equipment	**8,992**	8,056	**17,440**	15,725
Communications	**6,203**	6,199	**12,814**	12,688
Floor brokerage and clearance	**2,219**	3,307	**4,685**	5,924
Marketing and business development	**6,725**	6,095	**12,935**	11,417
Outside services	**6,819**	7,735	**14,925**	15,739
Intangible asset amortization expense	**2,069**	2,204	**4,138**	3,180
Other operating expenses	**2,412**	4,618	**6,203**	8,960
Total non-interest expenses	**118,815**	115,892	**232,061**	216,407
Income before income tax expense	**17,134**	11,761	**28,668**	20,832
Income tax expense	**5,987**	4,458	**10,102**	13,103
Net income	**11,147**	7,303	**18,566**	7,729
Net income/(loss) applicable to noncontrolling interests	**453**	(75)	**639**	(159)
Net income applicable to Piper Jaffray Companies	**$ 10,694**	$ 7,378	**$ 17,927**	$ 7,888
Net income applicable to Piper Jaffray Companies common shareholders	**$ 8,760**	$ 5,712	**$ 14,422**	$ 6,213
Earnings per common share				
Basic	**$ 0.55**	$ 0.36	**$ 0.93**	$ 0.39
Diluted	**$ 0.55**	$ 0.36	**$ 0.93**	$ 0.39
Weighted average number of common shares outstanding				
Basic	**15,840**	15,901	**15,510**	15,869
Diluted	**15,845**	15,925	**15,536**	15,925

See Notes to the Consolidated Financial Statements

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Piper Jaffray Companies

Consolidated Statements of Cash Flows

(Unaudited)

(Dollars in thousands)	**Six Months Ended June 30, 2011**	**2010**
Operating Activities:		
Net income	**$ 18,566**	$ 7,729
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization of fixed assets	**3,642**	3,651
Deferred income taxes	**17,008**	16,080
Stock-based compensation	**15,734**	15,908
Amortization of intangible assets	**4,138**	3,180
Amortization of forgivable loans	**4,351**	3,320
Decrease/(increase) in operating assets:		
Cash and cash equivalents segregated for regulatory purposes	**(3,000)**	5,000
Receivables:		
Customers	**(46,581)**	15,213
Brokers, dealers and clearing organizations	**(25,048)**	11,796
Securities purchased under agreements to resell	**8,288**	(81,358)
Net financial instruments and other inventory positions owned	**(57,242)**	85,581
Other receivables	**(15,089)**	(6,827)
Other assets	**(5,867)**	(314)
Increase/(decrease) in operating liabilities:		
Payables:		
Customers	**16,990**	2,590
Brokers, dealers and clearing organizations	**3,197**	305
Securities sold under agreements to repurchase	**43,516**	(14,443)
Accrued compensation	**(57,689)**	(68,266)
Other liabilities and accrued expenses	**(7,835)**	(14,342)
Net cash used in operating activities	**(82,921)**	(15,197)
Investing Activities:		
Business acquisitions, net of cash acquired	**(56)**	(182,105)
Purchases of fixed assets, net	**(4,339)**	(2,735)
Net cash used in investing activities	**(4,395)**	(184,840)
Financing Activities:		
Increase/(decrease) in short-term financing	**31,039**	(33,010)
Decrease in bank syndicated financing	**(5,000)**	
Decrease in securities loaned		(25,988)
Increase in securities sold under agreements to repurchase	**84,906**	301,430
Increase in noncontrolling interests	**15,089**	155
Repurchase of common stock	**(19,663)**	(39,177)
Excess tax benefits from stock-based compensation	**405**	
Proceeds from stock option transactions	**40**	98
Net cash provided by financing activities	**106,816**	203,508
Currency adjustment:		
Effect of exchange rate changes on cash	**(29)**	(568)

Net increase in cash and cash equivalents	**19,471**	2,903
Cash and cash equivalents at beginning of period	**50,602**	43,942
Cash and cash equivalents at end of period	**$ 70,073**	$ 46,845
Supplemental disclosure of cash flow information -		
Cash paid during the period for:		
Interest	**$ 16,937**	$ 16,295
Income taxes	**$ 19,138**	$ 2,374
Non-cash investing activities -		
Issuance of restricted common stock for acquisition of Advisory Research, Inc.:		
893,105 shares for the six months ended June 30, 2010	**$**	$ 31,822
Non-cash financing activities -		
Issuance of common stock for retirement plan obligations:		
90,085 shares and 81,696 shares for the six months ended June 30, 2011 and 2010, respectively	**$ 3,814**	$ 3,634
Issuance of restricted common stock for annual equity award:		
592,697 shares and 699,673 shares for the six months ended June 30, 2011 and 2010, respectively	**$ 25,095**	$ 31,121

See Notes to the Consolidated Financial Statements

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Piper Jaffray Companies

Notes to the Consolidated Financial Statements

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 Asia Holdings Limited, an entity providing investment banking services in China headquartered in Hong Kong; Piper Jaffray Ltd., a firm providing securities brokerage and mergers and acquisitions services in Europe headquartered in London, England; Advisory Research, Inc. (ARI), Fiduciary Asset Management, Inc. (FAMCO), and Piper Jaffray Investment Management LLC, entities providing asset management services to separately managed accounts, closed end funds and partnerships; Piper Jaffray Financial Products Inc., Piper Jaffray Financial Products II Inc. and Piper Jaffray Financial Products III Inc., entities that facilitate derivative transactions; and other immaterial subsidiaries. Piper Jaffray Companies and its subsidiaries (collectively, the Company) operate in two reporting segments: Capital Markets and Asset Management. A summary of the activities of each of the Company s business segments is as follows:

Capital Markets

The Capital Markets segment provides institutional sales, trading and research services and investment banking services. Institutional sales, trading and research services focus on the trading of equity and fixed income products with institutions, government, and non-profit entities. Revenues are generated through commissions and sales credits earned on equity and fixed income institutional sales activities, net interest revenues on trading securities held in inventory, profits and losses from trading these securities and strategic trading opportunities. Investment banking services include management of and participation in underwritings, merger and acquisition services and public finance activities. Revenues are generated through the receipt of advisory and financing fees.

Asset Management

The Asset Management segment provides asset management services and product offerings in equity and fixed income securities to institutional and high net worth individuals through proprietary distribution channels. Revenues are generated in the form of management fees and performance fees. The majority of the Company s performance fees, if earned, are recognized in the fourth quarter.

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. Noncontrolling interests represent equity interests in consolidated entities that are not attributable, either directly or indirectly, to Piper Jaffray Companies. Noncontrolling interests include the minority equity holders proportionate share of the equity in a municipal hedge fund and private equity investment vehicles. 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, 2010.

The consolidated financial statements are prepared in conformity with U.S. generally accepted accounting principles (U.S. GAAP). 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.

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Note 2 *Summary of Significant Accounting Policies*

Refer to the Company s Annual Report on Form 10-K for the year ended December 31, 2010, for a full description of the Company s significant accounting policies.

Note 3 *Recent Accounting Pronouncements*

Adoption of New Accounting Standards

Fair Value Measurements

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-06, Improving Disclosures about Fair Value Measurements, (ASU 2010-06) amending FASB Accounting Standards Codification Topic 820, Fair Value Measurements and Disclosures (ASC 820). The amended guidance requires entities to disclose additional information regarding assets and liabilities that are transferred between levels of the fair value hierarchy and to disclose information in the Level III rollforward about purchases, sales, issuances and settlements on a gross basis. ASU 2010-06 also further clarifies existing guidance pertaining to the level of disaggregation at which fair value disclosures should be made and the requirements to disclose information about the valuation techniques and inputs used in estimating Level II and Level III fair value measurements. The guidance in ASU 2010-06 was effective for the Company January 1, 2010, except for the requirement to separately disclose purchases, sales, issuances and settlements on a gross basis in the Level III rollforward, which was effective January 1, 2011. While the adoption of ASU 2010-06 did not change accounting requirements, it did impact the Company s disclosures about fair value measurements.

Future Adoption of New Accounting Standards

Repurchase Agreements

In April 2011, the FASB issued ASU No. 2011-03, Reconsideration of Effective Control for Repurchase Agreements, (ASU 2011-03) amending FASB Accounting Standards Codification Topic 860, Transfers and Servicing (ASC 860). The amended guidance addresses the reporting of repurchase agreements (repos) and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. ASC 860 states that the accounting for repos depends in part on whether the transferor maintains effective control over the transferred financial assets. If the transferor maintains effective control, the transferor is required to account for its repo as a secured borrowing rather than a sale. ASU 2011-03 removes from the assessment of effective control the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets. ASU 2011-03 is applicable to new transactions and transactions that are modified on or after the first interim or annual period beginning on or after December 15, 2011. The adoption of ASU 2011-03 is not expected to have an impact on the consolidated financial statements of the Company because the Company accounts for all of its repurchase transactions as secured borrowings.

Fair Value Measurements and Disclosures

In May 2011, the FASB issued ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, (ASU 2011-04) amending ASC 820. The amended guidance improves the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and International Financial Reporting Standards. Although most of the amendments only clarify existing guidance in U.S. GAAP, ASU 2011-04 requires new disclosures, with a particular focus on Level III measurements, including quantitative information about the significant unobservable inputs used for all Level III measurements and a qualitative discussion about the sensitivity of recurring Level III measurements to changes in the unobservable inputs disclosed. ASU 2011-04 also requires the hierarchy classification for those items whose fair value is not recorded on the balance sheet but is disclosed in the footnotes. ASU 2011-04 is effective during interim and annual periods beginning after December 15, 2011. Disclosures are not required in earlier periods for comparative purposes. The adoption of ASU 2011-04 is not expected to have a material impact on the Company s results of operations or financial position, but it will impact the Company s disclosures about fair value measurements.

Comprehensive Income

In June 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income, (ASU 2011-05) amending FASB Accounting Standards Codification Topic 220, Comprehensive Income. The amended guidance improves the comparability, consistency, and transparency of financial reporting and increases the prominence of items reported in other comprehensive income. ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders equity, and requires that all nonowner changes in stockholders equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 is effective for interim and annual periods beginning after December 15, 2011, and will be applied on a retrospective basis. The adoption of ASU 2011-05 will not impact the Company s results of operations or financial position. The Company will update its presentation of other comprehensive income, and the components of other comprehensive income in a single continuous statement of comprehensive income.

Note 4 *Acquisition of Advisory Research, Inc.*

On March 1, 2010, the Company completed the purchase of ARI, an asset management firm based in Chicago, Illinois. The purchase was completed pursuant to the securities purchase agreement dated December 20, 2009. The fair value as of the acquisition date was $212.1 million, consisting of $180.3 million in cash and 893,105 shares (881,846 of which vest in four equal annual installments) of the Company s common stock valued at $31.8 million. The fair value of the 881,846 shares of common stock with vesting restrictions was determined using the market price of the Company s common stock on the date of the acquisition discounted for the liquidity restrictions in accordance with the valuation principles of ASC 820. The vesting provisions of these 881,846 shares (of which 220,466 shares vested on March 1, 2011) are principally time-based, but also include certain post-termination restrictions. The remaining 11,259 shares had no vesting restrictions and the fair value was determined using the market price of the Company s common stock on the date of the acquisition. A portion of the purchase price payable in cash was funded by proceeds from the issuance of variable rate senior notes (Notes) in the amount of $120 million pursuant to the note purchase agreement (Note Purchase Agreement) dated December 31, 2009 with certain entities advised by Pacific Investment Management Company LLC (PIMCO) and discussed further in Note 14 to these consolidated financial statements.

The acquisition was accounted for under the acquisition method of accounting in accordance with FASB Accounting Standards Codification Topic 805, Business Combinations. Accordingly, goodwill was measured as the excess of the acquisition-date fair value of the consideration transferred over the amount of acquisition-date identifiable assets acquired net of assumed liabilities. The Company recorded $152.3 million of goodwill as an asset on the consolidated statements of financial condition, which is deductible for income tax purposes. In management s opinion, the goodwill represents the reputation and expertise of ARI in the asset management business.

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Identifiable intangible assets purchased by the Company consisted of customer relationships and the ARI trade name with acquisition-date fair values of $52.2 million and $2.9 million, respectively. Acquisition costs of $44,000 were incurred in the six months ended June 30, 2010, and are included in outside services on the consolidated statements of operations.

The following table summarizes the fair value of assets acquired and liabilities assumed at the date of the acquisition:

(Dollars in thousands)		
Assets:		
Cash and cash equivalents	$	2,008
Other receivables		8,861
Fixed assets		377
Goodwill		152,282
Intangible assets		55,059
Other assets		369
Total assets acquired		218,956
Liabilities:		
Accrued compensation		149
Other liabilities and accrued expenses		6,726
Total liabilities assumed		6,875
Net assets acquired	$	212,081

ARI s results of operations have been included in the consolidated Company s financial statements prospectively beginning on the date of acquisition.

The following unaudited pro forma financial data assumes the acquisition had occurred on January 1, 2010, the beginning of the period in which the acquisition occurred. Pro forma results have been prepared by adjusting the consolidated Company s historical results to include ARI s results of operations adjusted for the following changes: depreciation and amortization expenses were adjusted as a result of acquisition-date fair value adjustments to fixed assets, intangible assets, deferred acquisition costs and lease obligations; interest expense was adjusted for revised debt structures; and the income tax effect of applying the Company s statutory tax rates to ARI s results. The consolidated Company s unaudited pro forma information presented does not necessarily reflect the results of operations that would have resulted had the acquisition been completed at the beginning of the applicable period presented, nor does it indicate the results of operations in future periods.

(Dollars in thousands)		Six Months Ended June 30, 2010
Net revenues	$	245,284
Net income applicable to Piper Jaffray Companies	$	9,635

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Note 5 *Financial Instruments and Other Inventory Positions Owned and Financial Instruments and Other Inventory Positions Sold, but Not Yet Purchased*

Financial instruments and other inventory positions owned and financial instruments and other inventory positions sold, but not yet purchased were as follows:

(Dollars in thousands)	**June 30, 2011**	**December 31, 2010**
Financial instruments and other inventory positions owned:		
Corporate securities:		
Equity securities	**$ 28,239**	$ 18,089
Convertible securities	**47,172**	37,290
Fixed income securities	**72,550**	58,591
Municipal securities:		
Taxable securities	**230,870**	295,439
Tax-exempt securities	**282,144**	137,340
Short-term securities	**56,475**	48,830
Asset-backed securities	**51,690**	88,922
U.S. government agency securities	**178,892**	153,739
U.S. government securities	**7,908**	6,569
Derivative contracts	**23,705**	29,341
	$ 979,645	$ 874,150
Financial instruments and other inventory positions sold,but not yet purchased:		
Corporate securities:		
Equity securities	**$ 34,686**	$ 23,651
Convertible securities	**2,545**	8,320
Fixed income securities	**23,781**	17,965
Asset-backed securities	**12,049**	12,425
U.S. government agency securities	**119,307**	52,934
U.S. government securities	**221,632**	250,452
	$ 414,000	$ 365,747

At June 30, 2011 and December 31, 2010, financial instruments and other inventory positions owned in the amount of $653.3 million and $515.8 million, respectively, had been pledged as collateral for the Company s repurchase agreements and short-term financings.

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

Derivative Contract Financial Instruments

The Company uses interest rate swaps, interest rate locks, credit default swap index contracts and foreign currency forward contracts to facilitate customer transactions and as a means to manage risk in certain inventory positions and firm investments. The following describes the Company s derivatives by the type of transaction or security the instruments are economically hedging.

Customer matched-book derivatives: The Company enters into interest rate derivative contracts in a principal capacity as a dealer to satisfy the financial needs of its customers. The Company simultaneously enters into an interest rate derivative contract with a third party for the same notional amount to hedge the interest rate and credit risk of the initial client interest rate derivative contract. In certain limited instances, the Company has only hedged interest rate risk with a third party, and retains uncollateralized credit risk as described below. The instruments use interest rates based upon either the London Interbank Offer Rate (LIBOR) index or the Securities Industry and Financial Markets Association (SIFMA) index.

Trading securities derivatives: The Company enters into interest rate derivative contracts to hedge interest rate and market value risks associated with its fixed income securities. The instruments use interest rates based upon either the Municipal Market Data (MMD) index, LIBOR or the SIFMA index. The Company also enters into credit default swap index contracts to hedge credit risk associated with its taxable fixed income securities.

Firm investments: The Company entered into foreign currency forward contracts to manage the currency exposure related to its non-U.S. dollar denominated firm investments.

The following table presents the total absolute notional contract amount associated with the Company s outstanding derivative instruments:

(Dollars in thousands) **Transaction Type or Hedged Security**	**Derivative Category**	**June 30, 2011**	**December 31, 2010**
Customer matched-book	Interest rate derivative contract	**$ 6,063,556**	$ 6,505,232
Trading securities	Interest rate derivative contract	**154,750**	192,250
Trading securities	Credit default swap index contract	**180,000**	200,000
Firm investments	Foreign currency forward contract	**-**	16,645
		$ 6,398,306	$ 6,914,127

The Company s interest rate derivative contracts, credit default swap index contracts and foreign currency forward contracts do not qualify for hedge accounting, therefore, unrealized gains and losses are recorded on the consolidated statements of operations. The following table presents the Company s unrealized gains/(losses) on derivative instruments:

(Dollars in thousands)		**Three Months Ended June 30,**		**Six Months Ended June 30,**	
Derivative Category	**Operations Category**	**2011**	**2010**	**2011**	**2010**
Interest rate derivative contract	Investment banking	**$ (2,798)**	$ (1,702)	**$ (3,345)**	$ (2,869)
Interest rate derivative contract	Institutional brokerage	**(6,059)**	(311)	**(7,306)**	(185)
Credit default swap index contract	Institutional brokerage	**45**	3,073	**(60)**	3,073
Foreign currency forward contract	Other operating expenses	**-**	457	**59**	514
		$ (8,812)	$ 1,517	**$ (10,652)**	$ 533

The gross fair market value of all derivative instruments and their location on the Company s consolidated statements of financial condition prior to counterparty netting are shown below by asset or liability position *(1)*:

(Dollars in thousands) **Derivative Category**	**Financial Condition Location**	**Asset Value at June 30, 2011**	**Financial Condition Location**	**Liability Value at June 30, 2011**
Interest rate derivative contract	Financial intruments and other inventory positions owned	$ 357,086	Financial intruments and other inventory positions sold, but not yet purchased	$ 329,678
Credit default swap index contract	Financial intruments and other inventory positions owned	2,062	Financial intruments and other inventory positions sold, but not yet	2,912

		purchased
	$ 359,148	$ 332,590

(1) Amounts are disclosed at gross fair value in accordance with the requirement of FASB Accounting Standards Codification Topic 815, Derivatives and Hedging (ASC 815).

Derivatives are reported on a net basis by counterparty when legal right of offset exists and when applicable provisions are stated in master netting agreements. Cash collateral received or paid is netted on a counterparty basis, provided a legal right of offset exists.

Credit risk associated with the Company s derivatives is the risk that a derivative counterparty will not perform in accordance with the terms of the applicable derivative contract. Credit exposure associated with the Company s derivatives is driven by uncollateralized market movements in the fair value of the contracts with counterparties and is monitored regularly by the Company s financial risk committee. The Company considers counterparty credit risk in determining derivative contract fair value. The majority of the Company s derivative contracts are substantially collateralized by its counterparties, who are major financial institutions. The Company has a limited number of counterparties who are not required to post collateral. Based on market movements, the uncollateralized amounts representing the fair value of the derivative contract can become material, exposing the Company to the credit risk of these counterparties. As of June 30, 2011, the Company had $17.4 million of uncollateralized credit exposure with these counterparties (notional contract amount of $206.3 million), including $8.6 million of uncollateralized credit exposure with one counterparty.

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Note 6 *Fair Value of Financial Instruments*

The Company records financial instruments and other inventory positions owned and financial instruments and other inventory positions sold, but not yet purchased at fair value on the consolidated statements of financial condition with unrealized gains and losses reflected on the consolidated statements of operations.

The degree of judgment used in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Pricing observability is impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established and other characteristics specific to the instrument. Financial instruments with readily available active quoted prices for which fair value can be measured generally will have a higher degree of pricing observability and a lesser degree of judgment used in measuring fair value. Conversely, financial instruments rarely traded or not quoted will generally have less, or no, pricing observability and a higher degree of judgment used in measuring fair value.

The following is a description of the valuation techniques used to measure fair value.

Cash Equivalents

Cash equivalents include highly liquid investments with original maturities of 90 days or less. Actively traded money market funds are measured at their net asset value and classified as Level I.

Financial Instruments and Other Inventory Positions Owned

Equity securities Exchange traded equity securities are valued based on quoted prices from the exchange for identical assets or liabilities as of the period-end date. To the extent these securities are actively traded and valuation adjustments are not applied, they are categorized as Level I. Non-exchange traded equity securities (principally hybrid preferred securities) are measured primarily using broker quotations, pricing service data from external providers and prices observed for recently executed market transactions and are categorized within Level II of the fair value hierarchy. Where such information is not available, non-exchange traded equity securities are categorized as Level III financial instruments and measured using valuation techniques involving quoted prices of or market data for comparable companies. When using pricing data of comparable companies, judgment must be applied to adjust the pricing data to account for differences between the measured security and the comparable security (e.g., issuer market capitalization, yield, dividend rate and geographical concentration).

Convertible securities Convertible securities are valued based on observable trades, when available. Accordingly, these convertible securities are categorized as Level II. When observable price quotations are not available, fair value is determined based upon model-based valuation techniques with observable market inputs, such as specific company stock price and volatility and unobservable inputs such as option adjusted spreads. These instruments are categorized as Level III.

Corporate fixed income securities Fixed income securities include corporate bonds which are valued based on recently executed market transactions of comparable size, pricing service data from external providers when available, or broker quotations. Accordingly, these corporate bonds are categorized as Level II. When observable price quotations are not available, fair value is determined using model-based valuation techniques with observable inputs such as specific security contractual terms and yield curves and unobservable inputs such as credit spreads. Corporate bonds measured using model-based valuation techniques are categorized as Level III.

Taxable municipal securities Taxable municipal securities are valued using recently executed observable trades or market price quotations and therefore are generally categorized as Level II.

Tax-exempt municipal securities Tax-exempt municipal securities are valued using recently executed observable trades or market price quotations and therefore are generally categorized as Level II. Certain illiquid tax-exempt municipal securities are valued using market data for comparable securities (maturity and sector) and management judgment to infer an appropriate current yield and are categorized as Level III.

Short-term municipal securities Short-term municipal securities include auction rate securities, variable rate demand notes, and other short-term municipal securities. Variable rate demand notes and other short-term municipal securities are valued using recently executed observable trades or market price quotations and therefore are generally categorized as Level II. Auction rate securities are categorized as Level III.

Asset-backed securities Asset-backed securities are valued using observable trades, when available. Certain asset-backed securities are valued using models where inputs to the model are directly observable in the market, or can be derived principally from or corroborated by observable market data. These asset-backed securities are categorized as Level II. Other asset-backed securities, which are principally collateralized by residential mortgages or aircraft, have experienced low volumes of executed transactions that results in less observable transaction data. Asset-backed securities collateralized by residential mortgages are valued using cash flow models that utilize unobservable inputs including credit default rates ranging from 1-10%, prepayment rates ranging from 3-23% of CPR, severity ranging from 40-80% and valuation yields ranging from 5-10%. Asset-backed securities collateralized by aircraft are valued using cash flow models that utilize unobservable inputs including airplane lease rates, aircraft residual valuation, trust costs, and other factors impacting security cash flows. The Company s aircraft asset-backed securities had a weighted average yield of 9.8% at June 30, 2011. As judgment is used to determine the range of these inputs, these asset-backed securities are categorized as Level III.

U.S. government agency securities U.S. government agency securities include agency debt bonds and mortgage bonds. Agency debt bonds are valued by using either direct price quotes or price quotes for comparable bond securities and thus, are categorized as Level II. Mortgage bonds include mortgage bonds, mortgage pass-through securities and agency collateralized mortgage-obligations (CMO). Mortgage pass-through securities and CMO securities are valued using recently executed observable trades or other observable inputs, such as prepayment speeds and therefore, generally are categorized as Level II. Mortgage bonds are valued using observable market inputs, such as market yields ranging from 70-150 basis point spreads to treasury securities, or models based upon prepayment expectations ranging from 250-350 Public Securities Association (PSA) prepayment levels. These securities are categorized as Level II.

U.S. government securities U.S. government securities include highly liquid U.S. treasury securities which are generally valued using quoted market prices and therefore categorized as Level I.

Derivatives Derivative contracts include interest rate, forward purchase agreement and basis swaps, interest rate locks, futures, credit default swap index contracts and foreign currency forward contracts. These instruments derive their value from underlying assets, reference rates, indices or a combination of these factors. The majority of the Company s interest rate derivative contracts, including both interest rate swaps and interest rate locks, are valued using market standard pricing models based on the net present value of estimated future cash flows. The valuation models used do not involve material subjectivity as the methodologies do not entail significant judgment and the pricing inputs are market observable, including contractual terms, yield curves and measures of volatility. These instruments are classified as Level II within the fair value hierarchy. Certain interest rate locks transact in less active markets and were valued using valuation models that used the previously mentioned observable inputs and unobservable inputs that required significant judgment. These instruments are classified as Level III. The Company s credit default swap index contracts and foreign currency forward contracts are valued using market price quotations and classified as Level II.

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Investments

The Company s investments valued at fair value include investments in public companies, warrants of public or private companies and investments in certain illiquid municipal bonds. These investments are included in other assets on the consolidated statements of financial condition. Exchange traded direct equity investments in public companies are valued based on quoted prices on active markets and reported in Level I. Company-owned warrants, which have a cashless exercise option, are valued based upon the Black-Scholes option-pricing model that uses discount rates and stock volatility factors of comparable companies as inputs. These inputs are subject to management judgment to account for differences between the measured investment and comparable companies. Company-owned warrants are reported as Level III assets. Investments in certain illiquid municipal bonds that the Company is holding for investment are measured using valuation techniques involving significant management judgment and are reported as Level III assets.

Fair Value Option The fair value option permits the irrevocable fair value option election on an instrument-by-instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument. The fair value option was elected for certain merchant banking investments at inception to reflect economic events in earnings on a timely basis. At June 30, 2011, $8.6 million in merchant banking investments, included within other assets on the consolidated statements of financial condition, are accounted for at fair value and are classified as Level III assets. The gains and losses from fair value changes included in earnings as a result of electing to apply the fair value option to certain financial assets, were not material for the six months ended June 30, 2011.

The following table summarizes the valuation of our financial instruments by pricing observability levels defined in ASC 820 as of June 30, 2011:

(Dollars in thousands)	Level I	Level II	Level III	Counterparty Collateral Netting (1)	Total
Assets:					
Financial instruments and other inventory positions owned:					
Corporate securities:					
Equity securities	$ 19,207	$ 9,032	$ -	$ -	$ 28,239
Convertible securities	-	43,569	3,603	-	47,172
Fixed income securities	-	72,091	459	-	72,550
Municipal securities:					
Taxable securities	-	230,870	-	-	230,870
Tax-exempt securities	-	277,951	4,193	-	282,144
Short-term securities	-	56,300	175	-	56,475
Asset-backed securities	-	16,485	35,205	-	51,690
U.S. government agency securities	-	178,892	-	-	178,892
U.S. government securities	7,908	-	-	-	7,908
Derivative contracts	-	50,734	935	(27,964)	23,705
Total financial instruments and other inventory positions owned:	27,115	935,924	44,570	(27,964)	979,645
Cash equivalents	15,857	-	-	-	15,857
Investments	4,469	-	20,648	-	25,117
Total assets	$ 47,441	$ 935,924	$ 65,218	$ (27,964)	$ 1,020,619
Liabilities:					
Financial instruments and other inventory positions sold, but not yet purchased:					
Corporate securities:					
Equity securities	$ 34,289	$ 397	$ -	$ -	$ 34,686
Convertible securities	-	2,545	-	-	2,545
Fixed income securities	-	20,503	3,278	-	23,781
Asset-backed securities	-	12,049	-	-	12,049
U.S. government agency securities	-	119,307	-	-	119,307

U.S. government securities	221,632	-	-	-	221,632
Derivative contracts	-	20,726	4,385	(25,111)	-
Total financial instruments and other inventory positions sold, but not yet purchased:	$ 255,921	$ 175,527	$ 7,663	$ (25,111)	$ 414,000

(1) Represents cash collateral and the impact of netting on a counterparty basis. The Company had no securities posted as collateral to its counterparties.

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The following table summarizes the valuation of our financial instruments by pricing observability levels defined in ASC 820 as of December 31, 2010:

(Dollars in thousands)	Level I	Level II	Level III	Counterparty Collateral Netting (1)	Total
Assets:					
Financial instruments and other inventory positions owned:					
Corporate securities:					
Equity securities	$ 14,509	$ 2,240	$ 1,340	$ -	$ 18,089
Convertible securities	-	34,405	2,885	-	37,290
Fixed income securities	-	52,323	6,268	-	58,591
Municipal securities:					
Taxable securities	-	295,439	-	-	295,439
Tax-exempt securities	-	131,222	6,118	-	137,340
Short-term securities	-	48,705	125	-	48,830
Asset-backed securities	-	43,752	45,170	-	88,922
U.S. government agency securities	-	153,739	-	-	153,739
U.S. government securities	6,569	-	-	-	6,569
Derivative contracts	-	58,047	4,665	(33,371)	29,341
Total financial instruments and other inventory positions owned:	21,078	819,872	66,571	(33,371)	874,150
Cash equivalents	9,923	-	-	-	9,923
Investments	4,961	-	9,682	-	14,643
Total assets	$ 35,962	$ 819,872	$ 76,253	$ (33,371)	$ 898,716
Liabilities:					
Financial instruments and other inventory positions sold, but not yet purchased:					
Corporate securities:					
Equity securities	$ 23,651	$ -	$ -	$ -	$ 23,651
Convertible securities	-	6,543	1,777	-	8,320
Fixed income securities	-	15,642	2,323	-	17,965
Asset-backed securities	-	10,310	2,115	-	12,425
U.S. government agency securities	-	52,934	-	-	52,934
U.S. government securities	250,452	-	-	-	250,452
Derivative contracts	-	21,084	339	(21,423)	-
Total financial instruments and other inventory positions sold, but not yet purchased:	$ 274,103	$ 106,513	$ 6,554	$ (21,423)	$ 365,747

(1) Represents cash collateral and the impact of netting on a counterparty basis. The Company had no securities posted as collateral to its counterparties.

The Company s Level III assets were $65.2 million and $76.3 million, or 6.4 percent and 8.5 percent of financial instruments measured at fair value at June 30, 2011 and December 31, 2010, respectively. Transfers between levels are recognized at the beginning of the reporting period. There were $7.4 million of transfers of financial assets from Level II to Level III during the six months ended June 30, 2011 related to tax-exempt securities and convertible securities for which no recent trade activity was observed and valuation inputs became unobservable. There were no transfers of financial liabilities from Level II to Level III during the six months ended June 30, 2011. There were $2.9 million of transfers of financial assets and $1.8 million of transfers of financial liabilities from Level III to Level II during the six months ended June 30, 2011 related to convertible securities for which market trades were observed that provided transparency into the valuation of these assets. Transfers between Level I and Level II were not material for the six months ended June 30, 2011 and 2010, respectively.

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As discussed in Note 3, the Company began disclosing information in the Level III rollforward on a gross basis for purchases, sales, issuances and settlements effective January 1, 2011. The following tables summarize the changes in fair value associated with Level III financial instruments during the six months ended June 30, 2011 and 2010:

(Dollars in thousands)	**Balance at December 31, 2010**	Purchases	Sales	Transfers in	Transfers out	Realized gains/ (losses) (1)	Unrealized gains/ (losses) (1)	**Balance at June 30, 2011**
Assets:								
Financial instruments and other inventory positions owned:								
Corporate securities:								
Equity securities	**$ 1,340**	$ -	$ (1,467)	$ -	$ -	$ 127	$ -	**$ -**
Convertible securities	**2,885**	-	-	3,572	(2,885)	-	31	**3,603**
Fixed income securities	**6,268**	21,122	(27,048)	-	-	97	20	**459**
Municipal securities:								
Tax-exempt securities	**6,118**	513	(6,127)	3,791	-	(3)	(99)	**4,193**
Short-term securities	**125**	50	-	-	-	-	-	**175**
Asset-backed securities	**45,170**	65,833	(75,775)	-	-	216	(239)	**35,205**
Derivative contracts	**4,665**	2,141	(2,363)	-	-	222	(3,730)	**935**
Total financial instruments and other inventory positions owned:	**66,571**	89,659	(112,780)	7,363	(2,885)	659	(4,017)	**44,570**
Investments	**9,682**	8,555	(693)	-	-	693	2,411	**20,648**
Total assets	**$ 76,253**	$ 98,214	$ (113,473)	$ 7,363	$ (2,885)	$ 1,352	$ (1,606)	**$ 65,218**
Liabilities:								
Financial instruments and other inventory positions sold, but not yet purchased:								
Corporate securities:								
Convertible securities	**$ 1,777**	$ -	$ -	$ -	$ (1,777)	$ -	$ -	**$ -**
Fixed income securities	**2,323**	(6,205)	7,156	-	-	(33)	37	**3,278**
Asset-backed securities	**2,115**	(2,131)	-	-	-	75	(59)	**-**
Derivative contracts	**339**	(1,482)	-	-	-	1,482	4,046	**4,385**
Total financial instruments and other inventory positions sold, but not yet purchased:	**$ 6,554**	$ (9,818)	$ 7,156	$ -	$ (1,777)	$ 1,524	$ 4,024	**$ 7,663**

(Dollars in thousands)	**Balance at December 31, 2009**	Purchases/ (sales), net	Net transfers in/(out)	Realized gains/ (losses) (1)	Unrealized gains/ (losses) (1)	**Balance at June 30, 2010**
Assets:						
Financial instruments and other inventory positions owned:						
Corporate securities:						
Convertible securities	**$ -**	$ 9,269	$ (86)	$ 1,596	$ 392	**$ 11,171**
Fixed income securities	**-**	3,193	-	377	26	**3,596**
Municipal securities:						
Short-term securities	**17,825**	(12,090)	-	(130)	(2,080)	**3,525**
Asset-backed securities	**24,239**	(7,754)	4,370	3,759	(277)	**24,337**
Derivative contracts	**-**	-	10,369	-	8,826	**19,195**

Total financial instruments and other inventory positions owned:		**42,064**		(7,382)		14,653		5,602		6,887		**61,824**
Investments		**2,240**		-		-		-		798		**3,038**
Total assets	**$**	**44,304**	$	(7,382)	$	14,653	$	5,602	$	7,685	**$**	**64,862**
Liabilities:												
Financial instruments and other inventory positions sold, but not yet purchased:												
Corporate securities:												
Fixed income securities	**$**	**7,771**	$	(7,911)	$	-	$	3	$	146	**$**	**9**
Asset-backed securities		**2,154**		1,903		(3,872)		(4)		114		**295**
Total financial instruments and other inventory positions sold, but not yet purchased:	**$**	**9,925**	$	(6,008)	$	(3,872)	$	(1)	$	260	**$**	**304**

(1) Realized and unrealized gains/(losses) related to financial instruments, with the exception of foreign currency forward contracts and customer matched-book derivatives, are reported in institutional brokerage on the consolidated statements of operations. Realized and unrealized gains/(losses) related to foreign currency forward contracts are recorded in other operating expenses. Realized and unrealized gains/(losses) related to customer matched-book derivatives are reported in investment banking. Realized and unrealized gains/(losses) related to investments are reported in investment banking revenues or other income/(loss) on the consolidated statements of operations.

The carrying values of some of the Company s financial instruments approximate fair value due to their liquid or short-term nature. Such financial assets and financial liabilities include cash, securities either purchased or sold under agreements to resell, receivables and payables either from or to customers and brokers, dealers and clearing organizations and short-term financings.

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Note 7 *Variable Interest Entities*

In the normal course of business, the Company periodically creates or transacts with entities that are investment vehicles organized as limited partnerships or limited liability companies. These entities were established for the purpose of investing in securities of public or private companies, or municipal debt obligations and were initially financed through the capital commitments of the members. The Company has investments in and/or acts as the managing partner of these entities. In certain instances, the Company provides management and investment advisory services for which it earns fees generally based upon the market value of assets under management and may include incentive fees based upon performance. At June 30, 2011, the Company s aggregate net investment in these investment vehicles totaled $37.8 million and is recorded in other assets on the consolidated statements of financial condition. The Company s remaining capital commitments to these entities was $12.0 million at June 30, 2011.

Variable interest entities (VIEs) are entities in which equity investors lack the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities. The determination as to whether an entity is a VIE is based on the amount and nature of the members equity investment in the entity. The Company also considers other characteristics such as the power through voting rights or similar rights to direct the activities of an entity that most significantly impact the entity s economic performance. For those entities that meet the deferral provisions defined by FASB ASU No. 2010-10, Consolidation: Amendments for Certain Investment Funds, (ASU 2010-10), the Company considers characteristics such as the ability to influence the decision making about the entity s activities and how the entity is financed. The Company has identified certain of the entities described above as VIEs. These VIEs had net assets approximating $1.1 billion at June 30, 2011. The Company s exposure to loss from these VIEs is $8.4 million, which is the carrying value of its capital contributions recorded in other assets on the consolidated statements of financial condition at June 30, 2011. The Company had no liabilities related to these VIEs at June 30, 2011.

The Company is required to consolidate all VIEs for which it is considered to be the primary beneficiary. The determination as to whether the Company is considered to be the primary beneficiary is based on whether the Company has both the power to direct the activities of the VIE that most significantly impact the entity s economic performance and the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. For those entities that meet the deferral provisions defined by ASU 2010-10, the determination as to whether the Company is considered to be the primary beneficiary is based on whether the Company will absorb a majority of the VIE s expected losses, receive a majority of the VIE s expected residual returns, or both. It was determined the Company is not the primary beneficiary of the VIEs and accordingly does not consolidate them.

The Company has not provided financial or other support to the VIEs that it was not previously contractually required to provide as of June 30, 2011.

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

Amounts receivable from brokers, dealers and clearing organizations at June 30, 2011 and December 31, 2010 included:

(Dollars in thousands)	**June 30, 2011**	December 31, 2010
Receivable arising from unsettled securities transactions, net	**$ 83,413**	$ 65,923
Deposits paid for securities borrowed	**59,757**	62,720
Receivable from clearing organizations	**30,732**	19,168
Deposits with clearing organizations	**26,534**	24,795
Securities failed to deliver	**5,192**	1,361
Other	**8,224**	14,831
	$ 213,852	$ 188,798

Amounts payable to brokers, dealers and clearing organizations at June 30, 2011 and December 31, 2010 included:

(Dollars in thousands)	**June 30, 2011**	December 31, 2010
Payable to clearing organizations	**$ 2,816**	$ 2,320
Securities failed to receive	**3,356**	499
Other	**15,563**	15,700
	$ 21,735	$ 18,519

Deposits paid for securities borrowed 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 9 *Collateralized Securities Transactions*

The Company s financing and customer securities activities involve the Company using securities as collateral. In the event that the counterparty does not meet its contractual obligation to return securities used as collateral, or customers do not deposit additional securities or cash for margin when required, the Company may be exposed to the risk of reacquiring the securities or selling the securities at unfavorable market prices in order to satisfy its obligations to its customers or counterparties. The Company seeks to control this risk by monitoring the market value of securities pledged or used as collateral on a daily basis and requiring adjustments in the event of excess market exposure.

In the normal course of business, the Company obtains securities purchased under agreements to resell, securities borrowed and margin agreements on terms that permit it to repledge or resell the securities to others. The Company obtained securities with a fair value of approximately $336.7 million and $351.7 million at June 30, 2011 and December 31, 2010, respectively, of which $301.3 million and $309.9 million, respectively, had been either pledged or otherwise transferred to others in connection with the Company s financing activities or to satisfy its commitments under financial instruments and other inventory positions sold, but not yet purchased.

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At June 30, 2011, the Company s securities sold under agreements to repurchase (Repurchase Liabilities) exceeded 10 percent of total assets. The following is a summary of Repurchase Liabilities, the fair market value of collateral pledged and the interest rate charged by the Company s counterparty, which is based on LIBOR plus an applicable margin as of June 30, 2011:

(Dollars in thousands)	Repurchase Liabilities	Fair Market Value	Interest Rates
Overnight maturities:			
Corporate securities:			
Fixed income securities	$ 8,152	$ 9,902	1.03%
Municipal securities:			
Taxable securities	98,794	119,103	1.03%
Tax-exempt securities	69,723	83,926	1.03%
Short-term securities	23,331	28,325	1.03%
Term up to 30 day maturities:			
U.S. government agency securities	35,943	35,943	0.02%
On demand maturities:			
Corporate securities:			
Fixed income securities	16,154	17,037	0.65%
U.S. government agency securities	109,540	119,222	0.40 - 0.55%
U.S. government securities	6,665	6,657	0.20%
	$ 368,302	$ 420,115	

Note 10 *Other Assets*

Other assets include net deferred tax assets, prepaid expenses and proprietary investments. The Company s investments include direct equity investments in public companies, investments in private companies and partnerships, warrants of public or private companies, private company debt and investments to fund deferred compensation liabilities.

Other assets at June 30, 2011 and December 31, 2010 included:

(Dollars in thousands)	**June 30, 2011**	December 31, 2010
Net deferred income tax assets	**$ 45,172**	$ 62,180
Investments at fair value	**25,117**	14,643
Investments at cost	**22,927**	28,794
Investments accounted for under the equity method	**18,607**	16,653
Prepaid expenses	**9,133**	8,897
Other	**1,594**	2,363
Total other assets	**$ 122,550**	$ 133,530

Management regularly reviews the Company s investments in private company debt and has concluded that no valuation allowance is needed as it is probable that all contractual principal and interest will be collected.

At June 30, 2011, the estimated fair market value of investments carried at cost totaled $27.7 million. The estimated fair value of investments carried at cost was measured using valuation techniques involving market data for comparable companies (e.g., multiples of revenue and earnings before income tax, depreciation and amortization (EBITDA)). Valuation adjustments, based upon management s judgment, were made to account for differences between the measured security and comparable securities.

Investments accounted for under the equity method include general and limited partnership interests. The carrying value of these investments is based on the investment vehicles net asset value. The net assets of investment partnerships consist of investments in both marketable and non-marketable securities. The underlying investments held by such partnerships are valued based on the estimated fair value ultimately determined by management in our capacity as general partner or investor and, in the case of an investment in an unaffiliated investment partnership, are based on financial statements prepared by an unaffiliated general partner.

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Note 11 *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, 2011:

(Dollars in thousands)			
Goodwill	**Capital Markets**	**Asset Management**	**Total**
Balance at December 31, 2010	**$ 120,298**	**$ 202,296**	**$ 322,594**
FAMCO earn-out payment	-	56	56
Balance at June 30, 2011	**$ 120,298**	**$ 202,352**	**$ 322,650**
Intangible assets			
Balance at December 31, 2010	**$ -**	**$ 59,580**	**$ 59,580**
Amortization of intangible assets	-	(4,138)	(4,138)
Balance at June 30, 2011	**$ -**	**$ 55,442**	**$ 55,442**

Note 12 *Short-Term Financing*

The following is a summary of short-term financing and the weighted average interest rate on borrowings as of June 30, 2011 and December 31, 2010:

	Outstanding Balance		**Weighted Average Interest Rate**	
(Dollars in thousands)	**June 30, 2011**	**December 31, 2010**	**June 30, 2011**	**December 31, 2010**
Bank lines (secured)	**$ 110,275**	$ 70,000	**1.14%**	1.31%
Commercial paper (secured)	**114,353**	123,589	**1.28%**	1.28%
Total short-term financing	**$ 224,628**	$ 193,589		

The Company has committed short-term bank line financing available on a secured basis and uncommitted short-term bank line financing available on both a secured and unsecured basis. The Company uses these credit facilities in the ordinary course of business to fund a portion of its daily operations and the amount borrowed under these credit facilities varies daily based on the Company s funding needs.

The Company s committed short-term bank line financing at June 30, 2011 consisted of a $250 million committed revolving credit facility with U.S. Bank, N.A., which was renewed in December 2010. Advances under this facility are secured by certain marketable securities. The facility includes a covenant that requires the Company s U.S. broker dealer subsidiary to maintain a minimum net capital of $150 million, and the unpaid principal amount of all advances under this facility will be due on December 30, 2011. The Company pays a nonrefundable commitment fee on the unused portion of the facility on a quarterly basis.

The Company s uncommitted secured lines at June 30, 2011 totaled $275 million with three banks and are dependent on having appropriate collateral, as determined by the bank agreement, to secure an advance under the line. The availability of the Company s uncommitted lines are subject to approval by the individual banks each time an advance is requested and may be denied. In addition, the Company has established arrangements to obtain financing by another broker dealer at the end of each business day related specifically to its convertible inventory.

The Company issues secured commercial paper to fund a portion of its securities inventory. The senior secured commercial paper notes (Series A CP Notes) are secured by the Company s securities inventory with maturities on the Series A CP Notes ranging from 28 days to 270 days from the date of issuance. The Series A CP Notes are interest bearing or sold at a discount to par with an interest rate based on LIBOR plus an applicable margin.

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Note 13 *Bank Syndicated Financing*

The following is a summary of bank syndicated financing and the weighted average interest rate on borrowings as of June 30, 2011 and December 31, 2010:

	Outstanding Balance		Weighted Average Interest Rate	
(Dollars in thousands)	**June 30, 2011**	**December 31, 2010**	**June 30, 2011**	**December 31, 2010**
Term loan	**$ 95,000**	$ 100,000	**3.00%**	5.00%
Revolving credit facility	**25,000**	25,000	**3.00%**	5.00%
Total bank syndicated financing	**$ 120,000**	$ 125,000		

On December 29, 2010, the Company entered into a three-year bank syndicated credit agreement (the Credit Agreement) comprised of a $100 million amortizing term loan and a $50 million revolving credit facility. SunTrust Bank is the administrative agent (Agent) for the lenders. Pursuant to the Credit Agreement, the term loan and revolving credit facility mature on December 29, 2013. The term loan is payable in equal quarterly installments in annual amounts as set forth below:

(Dollars in thousands)	
Remainder of 2011	$ 5,000
Due in 2012	25,000
Due in 2013	65,000
	$ 95,000

The interest rate for borrowing under the Credit Agreement is, at the option of the Company, equal to LIBOR or a base rate, plus an applicable margin, adjustable and payable quarterly. The base rate is defined as the highest of the Agent s prime lending rate, the Federal Funds Rate plus 0.50 percent or one-month LIBOR plus 1.00 percent. The applicable margin varies from 1.50 percent to 3.00 percent and is based on the Company s leverage ratio. The Company also pays a nonrefundable commitment fee of 0.50 percent on the unused portion of the revolving credit facility on a quarterly basis. In addition, the aggregate debt issuance costs will be recognized as additional interest expense over the three-year life under the effective yield interest expense method.

The Company s Credit Agreement is recorded at amortized cost. As of June 30, 2011, the carrying value of the Credit Agreement approximates fair value.

The Credit Agreement includes customary events of default, including failure to pay principal when due or failure to pay interest within three business days of when due, failure to comply with the covenants in the Credit Agreement and related documents, failure to pay or another event of default under other material indebtedness in an amount exceeding $5 million, bankruptcy or insolvency of the Company or any of its subsidiaries, a change in control of the Company or a failure of Piper Jaffray to extend, renew or refinance its existing $250 million committed revolving secured credit facility on substantially the same terms as the existing committed facility. If there is any event of default under the Credit Agreement, the Agent may declare the entire principal and any accrued interest on the loans under the Credit Agreement to be due and payable and exercise other customary remedies.

The Credit Agreement includes covenants that, among other things, limit the Company s leverage ratio, require maintenance of certain levels of cash and regulatory net capital, require the Company s asset management segment to achieve minimum earnings before interest, taxes, depreciation and amortization, and impose certain limitations on the Company s ability to make acquisitions and make payments on its capital stock. With respect to the net capital covenant, the Company s U.S. broker dealer subsidiary is required to maintain minimum net capital of $160 million. At June 30, 2011, the Company was in compliance with all covenants.

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Note 14 *Variable Rate Senior Notes*

On December 31, 2009, the Company issued unsecured variable rate senior notes (Notes) in the amount of $120 million. The initial holders of the Notes were certain entities advised by PIMCO. Interest was based on an annual rate equal to LIBOR plus 4.10 percent, adjustable and payable quarterly. The proceeds from the Notes were used to fund a portion of the ARI acquisition discussed further in Note 4 to these consolidated financial statements. The unpaid principal and interest on the Notes were repaid on December 30, 2010, from the proceeds of the Credit Agreement discussed above in Note 13 to these consolidated financial statements.

Note 15 *Legal Contingencies*

The Company has been named as a defendant in various legal actions, including complaints and litigation and arbitration claims, arising from its business activities. Such actions include claims related to securities brokerage and investment banking activities, and 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 which could result in adverse judgments, settlement, penalties, fines or other relief.

The Company has established reserves for potential losses that are probable and reasonably estimable that may result from pending and potential legal actions, investigations and regulatory proceedings. In many cases, however, it is inherently difficult to determine whether any loss is probable or even possible or to estimate the amount or range of any potential loss, particularly where proceedings may be in relatively early stages or where plaintiffs are seeking substantial or indeterminate damages. Matters frequently need to be more developed before a loss or range of loss can reasonably be estimated. With respect to certain matters, the Company may be able to estimate probable losses or ranges of losses but does not believe, based on currently available information, that such losses will have a material effect on the Company s consolidated financial condition.

Given uncertainties regarding the timing, scope, volume and outcome of pending and potential legal actions, investigations and regulatory proceedings and other factors, the amounts of reserves and ranges of reasonably possible losses are difficult to determine and of necessity subject to future revision. Subject to the foregoing and except for the legal proceeding described below, management of the Company believes, based on currently available information, after consultation with outside legal counsel and taking into account its established reserves, that pending legal actions, investigations and regulatory 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, the results of operations in that period could be materially adversely affected. In addition, there can be no assurance that material losses will not be incurred from claims that have not yet been brought to the Company s attention or are not yet determined to be reasonably possible.

The Company is a defendant in one legal proceeding where management of the Company believes that a material loss is reasonably possible. The U.S. Department of Justice (DOJ), Antitrust Division, the SEC and various state attorneys general are conducting broad investigations of numerous firms, including the Company, for possible antitrust and securities violations in connection with the bidding or sale of guaranteed investment contracts and derivatives to municipal issuers from the early 1990s to date. These investigations commenced in November 2006. In addition, several class action complaints have been brought on behalf of a proposed class of government entities that purchased municipal derivatives. The complaints allege antitrust violations and civil fraud and are pending in a U.S. District Court under the multi-district litigation rules. No loss contingency has been reflected in the Company s consolidated financial statements as this contingency is neither probable nor reasonably estimable at this time. Further, an estimate of the loss, or range of loss that is reasonably possible, cannot be made at this time.

Note 16 *Restructuring*

During 2010, the Company restructured its European operations to focus European resources on two areas: the distribution of U.S. and Asia securities to European institutional investors and merger and acquisition advisory services. As a result of the restructuring, the Company exited the origination and distribution of European securities and incurred pre-tax restructuring-related expenses of $9.3 million in 2010. As of June 30, 2011, the majority of these expenses had been paid and the remaining restructuring-related liability associated with the Company s European operations was not material.

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Note 17 *Shareholders Equity*

Share Repurchase Program

In the third quarter of 2010, the Company s board of directors authorized the repurchase of up to $75.0 million in common shares through September 30, 2012. During the six months ended June 30, 2011, the Company did not repurchase any shares of the Company s common stock related to this authorization. The Company has $57.4 million remaining under this authorization.

Issuance of Shares

During the six months ended June 30, 2011, the Company issued 90,085 common shares out of treasury stock in fulfillment of $3.8 million in obligations under the Piper Jaffray Companies Retirement Plan and issued 1,113,592 common shares out of treasury stock as a result of vesting and exercise transactions under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan.

Note 18 *Earnings Per Share*

The Company calculates earnings per share using the two-class method. Basic earnings per common share is computed by dividing net income applicable to Piper Jaffray Companies common shareholders by the weighted average number of common shares outstanding for the period. Net income applicable to Piper Jaffray Companies common shareholders represents net income applicable to Piper Jaffray Companies reduced by the allocation of earnings to participating securities. Losses are not allocated to participating securities. All of the Company s unvested restricted shares are deemed to be participating securities as they are eligible to share in the profits (e.g., receive dividends) of the Company. Diluted earnings per common share is calculated by adjusting the weighted average outstanding shares to assume conversion of all potentially dilutive stock options. The computation of earnings per share is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
(Amounts in thousands, except per share data)				
Net income applicable to Piper Jaffray Companies	**$ 10,694**	$ 7,378	**$ 17,927**	$ 7,888
Earnings allocated to participating securities (1)	**(1,934)**	(1,666)	**(3,505)**	(1,675)
Net income applicable to Piper Jaffray Companies common shareholders (2)	**$ 8,760**	$ 5,712	**$ 14,422**	$ 6,213
Shares for basic and diluted calculations:				
Average shares used in basic computation	**15,840**	15,901	**15,510**	15,869
Stock options	**5**	24	**26**	56
Restricted stock (1)	**-**	-	**-**	-
Average shares used in diluted computation	**15,845**	15,925	**15,536**	15,925
Earnings per share:				
Basic	**$ 0.55**	$ 0.36	**$ 0.93**	$ 0.39
Diluted	**$ 0.55**	$ 0.36	**$ 0.93**	$ 0.39

(1) Participating securities were included in the calculation of diluted EPS using the two-class method, as this computation was more dilutive than the calculation using the treasury-stock method.

(2) Net income applicable to Piper Jaffray Companies common shareholders for diluted and basic EPS may differ under the two-class method as a result of adding the effect of the assumed exercise of stock options to dilutive shares outstanding, which alters the ratio used to allocate earnings to Piper Jaffray Companies common shareholders and participating securities for purposes of calculating diluted and basic EPS.

The anti-dilutive effects from stock options were immaterial for the periods ended June 30, 2011 and 2010.

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Note 19 *Employee Benefit Plans*

The Company has various employee benefit plans including a tax-qualified retirement plan (the Retirement Plan), a post-retirement medical plan, and health and welfare plans. The Company terminated its non-qualified unfunded cash balance pension plan (the Non-Qualified Plan) in 2010 through lump-sum cash distributions to all participants. These lump-sum cash payments, totaling $10.4 million, were based on the December 31, 2009 actuarial valuation of the Non-Qualified Plan and were distributed on March 15, 2010. For the six month period ended June 30, 2010, the Company recognized settlement expense of $0.2 million in compensation and benefits expense on the consolidated statements of operations related to the settlement of all Non-Qualified Plan liabilities.

Note 20 *Stock-Based Compensation*

The Company maintains two stock-based compensation plans, the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan (the Incentive Plan) and the 2010 Employment Inducement Award Plan (the Inducement Plan). The Company s equity awards are recognized on the consolidated statements of operations at grant date fair value over the service period of the award, net of estimated forfeitures.

The following table provides a summary of the Company s outstanding equity awards as of June 30, 2011:

Incentive Plan	
Restricted Stock	
Annual grants	1,657,618
Sign-on grants	532,504
Retention grants	114,158
Performance grants	307,820
	2,612,100
Inducement Plan	
Restricted Stock	116,610
Total restricted stock related to compensation	2,728,710
ARI deal consideration (1)	661,380
Total restricted stock outstanding	3,390,090
Incentive Plan	
Stock options outstanding	513,865

(1) The Company issued restricted stock as part of deal consideration for ARI. See Note 4 for further discussion.

Incentive Plan

The Incentive Plan permits the grant of equity awards, including restricted stock and non-qualified stock options, to the Company s employees and directors for up to 7.0 million shares of common stock. 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 plan provides for accelerated vesting of awards if there is a severance event, 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.

Restricted Stock Awards

Restricted stock grants are valued at the market price of the Company s common stock on the date of grant and are amortized over the related requisite service period. The Company grants shares of restricted stock to current employees as part of year-end compensation (Annual Grants) and as a retention tool. Employees may receive restricted stock upon initial hiring or as a retention award (Sign-on Grants). The Company has also granted incremental restricted stock awards with service conditions to key employees (Retention Grants) and restricted stock with performance conditions to members of senior management (Performance Grants).

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The Company s Annual Grants are made each year in February. Prior to 2011, Annual Grants had three-year cliff vesting periods. Beginning in 2011, Annual Grants vest ratably over three years in equal installments. The Annual Grants provide for continued vesting after termination of employment, so long as the employee does not violate certain post-termination restrictions set forth in the award agreement or any agreements entered into upon termination. The vesting period refers to the period in which post-termination restrictions apply. The Company determined the service inception date precedes the grant date for the Annual Grants, and that the post-termination restrictions do not meet the criteria for an in-substance service condition, as defined by FASB Accounting Standards Codification Topic 718, Compensation Stock Compensation (ASC 718). Accordingly, restricted stock granted as part of the Annual Grants is expensed in the one-year period in which those awards are deemed to be earned, which is generally the calendar year preceding the February grant date. For example, the Company recognized compensation expense during fiscal 2010 for our February 2011 Annual Grants. If an equity award related to the Annual Grants is forfeited as a result of violating the post-termination restrictions, the lower of the fair value of the award at grant date or the fair value of the award at the date of forfeiture is recorded within the consolidated statements of operations as other income. The Company recorded $3.1 million and $2.2 million of forfeitures through other income for the three months ended June 30, 2011 and 2010, respectively, and $3.2 million and $3.8 million for the six months ended June 30, 2011 and 2010, respectively.

Sign-on Grants are used as a recruiting tool for new employees and are issued to current employees as a retention tool. The majority of these awards have three-year cliff vesting terms and employees must fulfill service requirements in exchange for rights to the awards. Compensation expense is amortized on a straight-line basis from the date of grant over the requisite service period. Employees forfeit unvested shares upon termination of employment and a reversal of compensation expense is recorded.

Retention Grants are subject to ratable vesting based upon a five-year service requirement and are amortized as compensation expense on a straight-line basis from the grant date over the requisite service period. Employees forfeit unvested retention shares upon termination of employment and a reversal of compensation expense is recorded.

Performance-based restricted stock awards granted in 2008 and 2009 cliff vest upon meeting a specific performance-based metric prior to May 2013. Performance Grants are amortized on a straight-line basis over the period the Company expects the performance target to be met. The performance condition must be met for the awards to vest and total compensation cost will be recognized only if the performance condition is satisfied. The probability that the performance conditions will be achieved and that the awards will vest is reevaluated each reporting period with changes in actual or estimated outcomes accounted for using a cumulative effect adjustment to compensation expense. In 2010, the Company deemed it improbable that the performance condition related to the performance-based restricted stock grants would be met.

Annually, the Company grants stock to its non-employee directors. The stock-based compensation paid to non-employee directors is fully expensed on the grant date and included within outside services expense on the consolidated statements of operations.

Stock Options

The Company previously granted options to purchase Piper Jaffray Companies common stock to employees and non-employee directors in fiscal years 2004 through 2008. Employee and director options were 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. As described above pertaining to the Company s Annual Grants of restricted shares, stock options granted to employees were expensed in the calendar year preceding the annual February grant date. For example, the Company recognized compensation expense during fiscal 2007 for our annual February 2008 option grant. The maximum term of the stock options granted to employees and directors is ten years.

The Company did not grant stock options during the six months ended June 30, 2011 and 2010, respectively.

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Inducement Plan

In 2010, the Company established the Inducement Plan in conjunction with the acquisition of ARI. The Company granted $7.0 million in restricted stock (158,801 shares) under the Inducement Plan to ARI employees upon closing of the transaction. These shares vest ratably over five years in equal annual installments ending on March 1, 2015. Inducement Plan awards are amortized as compensation expense on a straight-line basis over the vesting period. Employees forfeit unvested Inducement Plan shares upon termination of employment and a reversal of compensation expense is recorded.

The Company recorded total compensation expense of $9.2 million and $10.6 million for the three months ended June 30, 2011 and 2010, respectively, and $18.4 million and $19.2 million for the six months ended June 30, 2011 and 2010, respectively, related to employee restricted stock awards. The tax benefit related to stock-based compensation costs totaled $3.6 million and $4.2 million for the three months ended June 30, 2011 and 2010, respectively, and $7.1 million and $7.6 million for the six months ended June 30, 2011 and 2010, respectively.

The following table summarizes the changes in the Company s unvested restricted stock (including the unvested restricted stock issued as part of the deal consideration for ARI) under the Incentive Plan and Inducement Plan for the six months ended June 30, 2011:

	Unvested Restricted Stock	Weighted Average Grant Date Fair Value
December 31, 2010	**4,523,184**	**$ 39.84**
Granted	616,489	42.17
Vested	(1,580,744)	39.99
Cancelled	(168,839)	38.30
June 30, 2011	**3,390,090**	**$ 37.94**

As of June 30, 2011, there was $13.6 million of total unrecognized compensation cost related to restricted stock expected to be recognized over a weighted average period of 2.45 years.

The following table summarizes the changes in the Company s outstanding stock options for the six months ended June 30, 2011:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
December 31, 2010	**515,492**	**$ 44.64**	**4.9**	**$ 166,406**
Granted	-	-		
Exercised	(1,023)	39.62		
Cancelled	(604)	39.62		
June 30, 2011	**513,865**	**$ 44.66**	**4.4**	**$ 18,282**
Options exercisable at June 30, 2011	**513,865**	**$ 44.66**	**4.4**	**$ 18,282**

As of June 30, 2011, there was no unrecognized compensation cost related to stock options expected to be recognized over future years.

Cash received from option exercises for the six months ended June 30, 2011 and 2010 was $0.1 million. The tax benefit realized for the tax deductions from option exercises was immaterial for the six months ended June 30, 2011 and 2010, respectively.

Note 21 *Segment Reporting*

On March 1, 2010, the Company completed the purchase of ARI, which expanded the Company s asset management business and resulted in a change to its reportable business segments in the second quarter of 2010. In connection with this change, the Company has reclassified prior period segment results to conform to the current period presentation.

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Basis for Presentation

The Company structures its segments primarily based upon the nature of the financial products and services provided to customers and the Company s management organization. It evaluates performance and allocates resources based on segment pre-tax operating income or loss and segment pre-tax operating margin. Revenues and expenses directly associated with each respective segment are included in determining their operating results. Other revenues and expenses that are not directly attributable to a particular segment are allocated based upon the Company s allocation methodologies, including each segment s respective net revenues, use of shared resources, headcount or other relevant measures. The financial management of assets is performed on an enterprise-wide basis. As such, assets are not assigned to the business segments.

Reportable segment financial results are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	**2011**	**2010**	**2011**	**2010**
Capital Markets				
Investment banking				
Financing				
Equities	**$ 30,985**	$ 34,776	**$ 55,667**	$ 51,764
Debt	**18,583**	14,355	**28,249**	29,536
Advisory services	**18,134**	23,197	**31,558**	35,172
Total investment banking	**67,702**	72,328	**115,474**	116,472
Institutional sales and trading				
Equities	**21,341**	27,501	**47,080**	54,428
Fixed income	**22,394**	9,733	**51,583**	37,109
Total institutional sales and trading	**43,735**	37,234	**98,663**	91,537
Other income	**4,088**	2,423	**7,968**	4,408
Net revenues	**115,525**	111,985	**222,105**	212,417
Operating expenses (1)	**103,339**	103,189	**202,659**	196,299
Segment pre-tax operating income	**$ 12,186**	$ 8,796	**$ 19,446**	$ 16,118
Segment pre-tax operating margin	**10.5%**	7.9%	**8.8%**	7.6%
Asset Management				
Management and performance fees				
Management fees	**$ 18,011**	$ 15,730	**$ 35,823**	$ 24,545
Performance fees	**1,629**	143	**1,746**	482
Total management and performance fees	**19,640**	15,873	**37,569**	25,027
Other income/(loss)	**784**	(205)	**1,055**	(205)
Net revenues	**20,424**	15,668	**38,624**	24,822
Operating expenses (1)	**15,476**	12,703	**29,402**	20,108
Segment pre-tax operating income	**$ 4,948**	$ 2,965	**$ 9,222**	$ 4,714
Segment pre-tax operating margin	**24.2%**	18.9%	**23.9%**	19.0%

Total				
Net revenues	**$ 135,949**	$ 127,653	**$ 260,729**	$ 237,239
Operating expenses (1)	**118,815**	115,892	**232,061**	216,407
Total segment pre-tax operating income	**$ 17,134**	$ 11,761	**$ 28,668**	$ 20,832
Pre-tax operating margin	**12.6%**	9.2%	**11.0%**	8.8%

(1) Operating expenses include intangible asset amortization as set forth in the table below:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(Dollars in thousands)	**2011**	**2010**	**2011**	**2010**
Capital Markets	**$ -**	$ -	**$ -**	$ -
Asset Management	**2,069**	2,204	**4,138**	3,180
Total intangible asset amortization expense	**$ 2,069**	$ 2,204	**$ 4,138**	$ 3,180

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Geographic Areas

The Company operates in both U.S. and non-U.S. markets. The Company s non-U.S. business activities are conducted through European and Asian locations. Net revenues disclosed in the following table reflect the regional view, with underwriting revenues allocated to geographic locations based upon the location of the issuing client, advisory revenues allocated based upon the location of the investment banking team and net institutional sales and trading revenues allocated based upon the location of the client.

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	**2011**	**2010**	**2011**	**2010**
Net revenues:				
United States	**$ 122,900**	$ 111,094	**$ 236,978**	$ 206,109
Asia	**8,727**	10,442	**10,920**	17,517
Europe	**4,322**	6,117	**12,831**	13,613
Consolidated	**$ 135,949**	$ 127,653	**$ 260,729**	$ 237,239

Long-lived assets are allocated to geographic locations based upon the location of the asset. The following table presents long-lived assets by geographic region:

(Dollars in thousands)	**June 30, 2011**	**December 31, 2010**
Long-lived assets:		
United States	**$ 431,438**	$ 451,892
Asia	**13,628**	13,391
Europe	**389**	547
Consolidated	**$ 445,455**	$ 465,830

Note 22 *Net Capital Requirements and Other Regulatory Matters*

Piper Jaffray is registered as a securities broker dealer with the SEC and is a member of various self regulatory organizations (SROs) and securities exchanges. The Financial Industry Regulatory Authority (FINRA) serves as Piper Jaffray s primary SRO. Piper Jaffray is subject to the uniform net capital rule of the SEC and the net capital rule of FINRA. 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 its rules, FINRA may prohibit a member firm from expanding its business or paying dividends if resulting net capital would be less than 5 percent of aggregate debit balances. Advances to affiliates, repayment of subordinated debt, dividend payments and other equity withdrawals by Piper Jaffray are subject to certain notification and other provisions of the SEC and FINRA rules. In addition, Piper Jaffray is subject to certain notification requirements related to withdrawals of excess net capital.

At June 30, 2011, net capital calculated under the SEC rule was $188.7 million, and exceeded the minimum net capital required under the SEC rule by $186.9 million.

The Company s short-term committed credit facility of $250 million includes a covenant requiring Piper Jaffray to maintain minimum net capital of $150 million. In addition, the Company s three-year bank syndicated credit facility includes a similar covenant, requiring minimum net capital of $160 million.

Piper Jaffray Ltd., which is a registered United Kingdom broker dealer, is subject to the capital requirements of the U.K. Financial Services Authority (FSA). As of June 30, 2011, Piper Jaffray Ltd. was in compliance with the capital requirements of the FSA.

Piper Jaffray Asia Holdings Limited operates three entities licensed by the Hong Kong Securities and Futures Commission, which are subject to the liquid capital requirements of the Securities and Futures (Financial Resources) Rules promulgated under the Securities and Futures Ordinance. As of June 30, 2011, Piper Jaffray Asia regulated entities were in compliance with the liquid capital requirements of the Hong Kong

Securities and Futures Ordinance.

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Note 23 *Income Taxes*

The Company s effective income tax rate for the three and six months ended June 30, 2011 was 34.9 percent and 35.2 percent, respectively, compared to 37.9 percent and 62.9 percent for the three and six months ended June 30, 2010, respectively. The provision for income taxes for the six months ended June 30, 2010 was unusually high due to a $5.3 million write-off of a deferred tax asset resulting from a restricted stock grant that vested at a share price lower than the grant date share price.

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

The following information should be read in conjunction with the accompanying unaudited 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, 2010 and 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, 2010, as updated in our subsequent reports filed with the SEC. These reports are available at our Web site at www.piperjaffray.com and at the SEC Web site at www.sec.gov. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update them in light of new information or future events.

Executive Overview

Our business principally consists of providing investment banking, institutional brokerage, asset management and related financial services to corporations, private equity groups, public entities, non-profit entities and institutional investors in the United States, Asia and Europe. We operate through two reportable business segments:

Capital Markets The Capital Markets segment provides institutional sales, trading and research services and investment banking services. Institutional sales, trading and research services focus on the trading of equity and fixed income products with institutions, government, and non-profit entities. Revenues are generated through commissions and sales credits earned on equity and fixed income institutional sales activities, net interest revenues on trading securities held in inventory, profits and losses from trading these securities and strategic trading opportunities. Investment banking services include management of and participation in underwritings, merger and acquisition services and public finance activities. Revenues are generated through the receipt of advisory and financing fees.

Asset Management The Asset Management segment provides asset management services with product offerings in equity and fixed income securities to institutions and high net worth individuals through proprietary distribution channels. Revenues are generated in the form of management fees and performance fees. The majority of our performance fees, if earned, are recognized in the fourth quarter. As part of our growth strategy, we expanded our asset management business in 2010 through the acquisition of Advisory Research, Inc. (ARI), a Chicago-based asset management firm. The transaction closed on March 1, 2010. For more information on our acquisition of ARI, see Note 4 of the accompanying consolidated financial statements included in this report.

Our 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.

Results for the three and six months ended June 30, 2011

For the three months ended June 30, 2011, we recorded net income applicable to Piper Jaffray Companies of $10.7 million, or $0.55 per diluted common share, compared with $7.4 million, or $0.36 per diluted common share for the corresponding period in the prior year. Net revenues for the three months ended June 30, 2011 were $135.9 million, up 6.5 percent from $127.7 million reported in the year-ago period as higher fixed income institutional brokerage revenues and increased asset management revenues were partially offset by a decline in investment banking revenues. For the three months ended June 30, 2011, non-compensation expenses were $35.4 million, a 7.3 percent decrease compared to the second quarter of 2010, mainly attributable to lower trading fees associated with decreased equity volumes as well as reductions in legal fees and litigation-related expenses.

For the six months ended June 30, 2011, net income applicable to Piper Jaffray Companies was $17.9 million, or $0.93 per diluted common share, compared with $7.9 million for the prior-year period, or $0.39 per diluted common share. Net revenues for the first six months of 2011 increased 9.9 percent to $260.7 million, as compared to the first half of 2010, primarily due to increased asset management revenues driven by increased revenues from ARI and gains recorded on our merchant banking activities. For the six months ended June 30, 2011, non-compensation expenses were $73.1 million, essentially flat compared with the six months ended June 30, 2010.

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 demand for investment banking services as reflected by the number and size of equity and debt financings and merger and acquisition transactions, the volatility of the equity and fixed income markets, changes in interest rates (especially rapid and extreme changes), the level and shape of various yield curves, the volume and value of trading in securities, and the demand for asset management services as reflected by the amount of assets under management.

Factors that differentiate our business within the financial services industry also may affect our financial results. For example, our business focuses on a middle-market clientele in specific industry sectors. If the business environment for our focus sectors is impacted disproportionately as compared to the economy as a whole, or does not recover on pace with other sectors of the economy, our business and results of operations will be negatively impacted. In addition, 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 for any individual period should not be considered indicative of future results.

As a participant in the financial services industry, we are subject to complex and extensive regulation of our business. In recent years and following the credit crisis of 2008, legislators and regulators increased their focus on the regulation of the financial services industry, resulting in fundamental changes to the manner in which the industry is regulated and increased regulation in a number of areas. For example, the Dodd-Frank Wall Street Reform and Consumer Protection Act was enacted in 2010 bringing sweeping change to financial services regulation in the U.S. Changes in the regulatory environment in which we operate could affect our business and the competitive environment, potentially adversely.

Outlook for the remainder of 2011

Equity financing revenues in the first half of 2011 reflected solid equity financing activity from U.S.-based issuers, but minimal equity financing activity from China-based issuers. We expect Asia capital markets activity to be weighted towards the fourth quarter of 2011. If the capital markets remain favorable in 2011, growth sectors of equity capital markets and advisory services should benefit. However, we remain cautious about the potential for volatile periods in the capital markets in the last half of the year as uncertainty exists in global markets and around U.S. fiscal policy. Debt financing revenues were negatively impacted in the first half of 2011 by reduced municipal underwriting levels. For the industry, the par value of municipal negotiated issuances was down 47 percent in the first six months of 2011; however, our par value of new issuances was down only 10 percent. As a result, our municipal financing economic fee market share increased 150 basis points compared to the first half of 2010. Public finance activity increased from the first to the second quarter of 2011, but we expect the municipal underwriting market to remain difficult for the remainder of 2011.

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Restructuring of European Operations

In the fourth quarter of 2010, we restructured our European operations to focus European resources on two areas: the distribution of U.S. and Asia securities to European institutional investors and merger and acquisition advisory services. With the narrowed focus, our European operations have returned to profitability in the first half of 2011.

Results of Operations

Financial Summary for the Three Months Ended June 30, 2011 and June 30, 2010

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.

	For the Three Months Ended June 30,			As a Percentage of Net Revenues For the Three Months Ended June 30,	
(Dollars in thousands)	**2011**	**2010**	**2011 v2010**	**2011**	**2010**
Revenues:					
Investment banking	**$ 67,062**	$ 71,745	(6.5)%	**49.3 %**	56.2 %
Institutional brokerage	**37,170**	32,084	15.9	**27.3**	25.1
Asset management	**19,640**	15,873	23.7	**14.4**	12.4
Interest	**13,144**	14,313	(8.2)	**9.7**	11.2
Other income	**6,626**	3,495	89.6	**5.0**	2.8
Total revenues	**143,642**	137,510	4.5	**105.7**	107.7
Interest expense	7,693	9,857	(22.0)	**5.7**	7.7
Net revenues	**135,949**	127,653	6.5	**100.0**	100.0
Non-interest expenses:					
Compensation and benefits	**83,376**	77,678	7.3	**61.3**	60.9
Occupancy and equipment	**8,992**	8,056	11.6	**6.6**	6.3
Communications	**6,203**	6,199	0.1	**4.6**	4.9
Floor brokerage and clearance	**2,219**	3,307	(32.9)	**1.6**	2.6
Marketing and business development	**6,725**	6,095	10.3	**4.9**	4.8
Outside services	**6,819**	7,735	(11.8)	**5.0**	6.0
Intangible asset amortization expense	**2,069**	2,204	(6.1)	**1.5**	1.7
Other operating expenses	**2,412**	4,618	(47.8)	**1.9**	3.6
Total non-interest expenses	**118,815**	115,892	2.5	**87.4**	90.8
Income before income tax expense	**17,134**	11,761	45.7	**12.6**	9.2
Income tax expense	**5,987**	4,458	34.3	**4.4**	3.5

Net income	**11,147**	7,303	52.6	**8.2**	5.7
Net income/(loss) applicable to noncontrolling interests	**453**	(75)	N/M	**0.3**	(0.1)
Net income applicable to Piper Jaffray Companies	**$ 10,694**	$ 7,378	44.9 %	**7.9 %**	5.8 %

N/M - Not meaningful

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For the three months ended June 30, 2011, we recorded net income applicable to Piper Jaffray Companies of $10.7 million. Net revenues for the three months ended June 30, 2011 were $135.9 million, a 6.5 percent increase from the year-ago period. For the second quarter of 2011, investment banking revenues decreased 6.5 percent to $67.1 million, compared with revenues of $71.7 million in the prior-year period. The decrease in investment banking revenues was primarily attributable to lower advisory services activity. In the second quarter of 2011, institutional brokerage revenues increased 15.9 percent to $37.2 million, compared with $32.1 million in the corresponding period in the prior year. The increase in institutional brokerage revenues resulted from improved performance in taxable securities and municipal strategic trading, partially offset by lower client volumes and reduced trading performance in equity institutional brokerage revenues. For the three months ended June 30, 2011, asset management fees increased 23.7 percent to $19.6 million, driven by increased management and performance fees. In the second quarter of 2011, net interest income increased 22.3 percent to $5.5 million, compared with $4.5 million in the second quarter of 2010. The increase was primarily the result of higher interest income earned on net inventory balances, particularly related to municipal securities and hybrid preferred securities. In the second quarter of 2011, other income increased to $6.6 million, compared with $3.5 million in the corresponding period in the prior year. The increase was primarily due to gains recorded on our merchant banking activities and increased income associated with forfeitures of stock-based compensation. Non-interest expenses increased to $118.8 million for the three months ended June 30, 2011, from $115.9 million in the corresponding period in the prior year.

Consolidated Non-Interest Expenses

Compensation and Benefits Compensation and benefits expenses, which are the largest component of our expenses, include salaries, incentive compensation, benefits, stock-based compensation, employment taxes and other employee costs. A portion of compensation expense is comprised of variable incentive arrangements, including discretionary incentive compensation, 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 incentive compensation payments, which generally occur in February, have a greater impact on our cash position and liquidity than is reflected on our consolidated statements of operations.

For the three months ended June 30, 2011, compensation and benefits expenses increased 7.3 percent to $83.4 million from $77.7 million in the corresponding period in 2010. This increase was due to higher variable compensation costs resulting from increased net revenues and profitability. Compensation and benefits expenses as a percentage of net revenues were 61.3 percent for the second quarter of 2011, compared with 60.9 percent for the second quarter of 2010.

Occupancy and Equipment In the second quarter of 2011, occupancy and equipment expenses were $9.0 million, compared with $8.1 million for the corresponding period in 2010. The increase was attributable to higher occupancy and equipment costs associated with our move to new space in New York City and Hong Kong in the fourth quarter of 2010 as well as increased software maintenance costs.

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, 2011, communications expenses were $6.2 million, essentially flat compared with the three months ended June 30, 2010.

Floor Brokerage and Clearance For the three months ended June 30, 2011, floor brokerage and clearance expenses decreased 32.9 percent to $2.2 million, compared with $3.3 million for the three months ended June 30, 2010. The decline was due to lower trading fees resulting from decreased U.S. equity trade volumes and our exit from the distribution of European securities completed in the fourth quarter of 2010.

Marketing and Business Development Marketing and business development expenses include travel and entertainment and promotional and advertising costs. In the second quarter of 2011, marketing and business development expenses increased 10.3 percent to $6.7 million, compared with $6.1 million in the second quarter of 2010, primarily due to increased travel costs.

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Outside Services Outside services expenses include securities processing expenses, outsourced technology functions, outside legal fees and other professional fees. Outside services expenses decreased 11.8 percent to $6.8 million in the second quarter of 2011, compared with $7.7 million for the prior-year period, primarily due to reductions in legal fees and consulting costs.

Intangible Asset Amortization Expense Intangible asset amortization expenses include the amortization of definite-lived intangible assets consisting of asset management contractual relationships, non-compete agreements and certain trade names and trademarks. In the second quarter of 2011, intangible asset amortization expense was $2.1 million, essentially flat compared with the second quarter of 2010.

Other Operating Expenses Other operating expenses include insurance costs, license and registration fees, expenses related to our charitable giving program and litigation-related expenses, which consist of the amounts we reserve and/or pay out related to legal and regulatory matters. In the second quarter of 2011, other operating expenses were $2.4 million, compared with $4.6 million in the second quarter of 2010. This decrease was primarily due to decreased litigation-related expenses, a decline in charitable contributions expense as we funded the majority of our 2011 charitable contribution commitments in the first three months of 2011, and reduced currency exposure related to our non-U.S. dollar denominated firm investments.

Income Taxes For the three months ended June 30, 2011, our provision for income taxes was $6.0 million, equating to an effective tax rate of 34.9 percent. For the three months ended June 30, 2010, our provision for income taxes was $4.5 million, equating to an effective tax rate of 37.9 percent.

Segment Performance

We measure financial performance by business segment. Our two reportable segments are Capital Markets and Asset Management. We determined these segments based upon the nature of the financial products and services provided to customers and the Company s management organization. Segment pre-tax operating income or loss and segment pre-tax operating margin are used to evaluate and measure segment performance by our management team in deciding how to allocate resources and in assessing performance in relation to our competitors. Revenues and expenses directly associated with each respective segment are included in determining segment operating results. Other revenues and expenses that are not directly attributable to a particular segment are allocated based upon the Company s allocation methodologies, generally based on each segment s respective net revenues, use of shared resources, headcount or other relevant measures.

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The following table provides our segment performance for the periods presented:

	Three Months Ended June 30,		
(Dollars in thousands)	**2011**	**2010**	**2011 v2010**
Net revenues			
Capital Markets	**$ 115,525**	$ 111,985	3.2 %
Asset Management	**20,424**	15,668	30.4
Total net revenues	**$ 135,949**	$ 127,653	6.5 %
Pre-tax operating income			
Capital Markets	**$ 12,186**	$ 8,796	38.5 %
Asset Management	**4,948**	2,965	66.9
Total pre-tax operating income	**$ 17,134**	$ 11,761	45.7 %
Pre-tax operating margin			
Capital Markets	**10.5 %**	7.9 %	
Asset Management	**24.2 %**	18.9 %	
Total pre-tax operating margin	**12.6 %**	9.2 %	

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Capital Markets

(Dollars in thousands)	Three Months Ended June 30, 2011	2010	2011 v2010
Net revenues:			
Investment banking			
Financing			
Equities	**$ 30,985**	$ 34,776	(10.9) %
Debt	**18,583**	14,355	29.5
Advisory services	**18,134**	23,197	(21.8)
Total investment banking	**67,702**	72,328	(6.4)
Institutional sales and trading			
Equities	**21,341**	27,501	(22.4)
Fixed income	**22,394**	9,733	130.1
Total institutional sales and trading	**43,735**	37,234	17.5
Other income	**4,088**	2,423	68.7
Total net revenues	**$ 115,525**	$ 111,985	3.2 %
Pre-tax operating income	**$ 12,186**	$ 8,796	38.5 %
Pre-tax operating margin	**10.5 %**	7.9 %	

Capital Markets net revenues increased 3.2 percent to $115.5 million in the second quarter of 2011, compared with $112.0 million in the prior-year period.

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.

Investment banking revenues decreased 6.4 percent to $67.7 million in the second quarter of 2011, compared with $72.3 million for the corresponding period in 2010, due to decreased equity financing and advisory services revenues, partially offset by an increase in debt financing revenues. For the three months ended June 30, 2011, equity financing revenues decreased to $31.0 million, compared with $34.8 million in the prior-year period, resulting from lower Asia equity financing activity. During the second quarter of 2011, we completed 24 equity financings, raising $6.8 billion in capital for our clients, compared with 28 equity financings, raising $3.5 billion for the corresponding period in 2010. Debt financing revenues in the second quarter of 2011 increased 29.5 percent to $18.6 million, compared with $14.4 million in the second quarter of 2010, due to an increase in corporate debt financing and derivatives revenues. For the three months ended June 30, 2011, advisory services revenues decreased 21.8 percent to $18.1 million due to a decline in U.S. advisory services revenues and lower revenue per transaction. We completed 9 transactions with an aggregate enterprise value of $1.1 billion during the second quarter of 2011, compared with 11 transactions with an aggregate enterprise value of $4.6 billion in the second quarter of 2010.

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 brokerage 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.

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For the three months ended June 30, 2011, institutional brokerage revenues increased 17.5 percent to $43.7 million, compared with $37.2 million in the prior-year period, as higher fixed income institutional brokerage revenues were partially offset by lower equity institutional brokerage revenues. Equity institutional brokerage revenues decreased to $21.3 million in the second quarter of 2011, compared with $27.5 million in the prior period in 2010, which is primarily attributed to lower U.S. client volumes resulting from reduced market volatility in the second quarter of 2011 versus the corresponding period in 2010. Additionally, we exited from the distribution of European securities in the fourth quarter of 2010. For the three months ended June 30, 2011, fixed income institutional brokerage revenues increased to $22.4 million, compared with $9.7 million in the prior-year period, resulting from increases in taxable sales and trading revenues and municipal strategic trading revenues. In the second quarter of 2010, we experienced an unfavorable fixed income trading environment as investor concerns over credit risk led to widening credit spreads and lower client activity in municipal products and reduced trading performance across products.

Other income includes gains and losses from our merchant banking activities and other firm investments, income associated with the forfeiture of stock-based compensation and interest expense related to firm funding. In the second quarter of 2011, other income increased to $4.1 million, compared with $2.4 million in the corresponding period in 2010, as a result of gains associated with our merchant banking activities and an increase in income associated with forfeitures of stock-based compensation.

Capital Markets segment pre-tax operating margin for the second quarter of 2011 increased to 10.5 percent, compared to 7.9 percent for the corresponding period in the prior year, as non-compensation expenses remained flat as net revenues increased compared with the prior-year period.

Asset Management

	Three Months Ended June 30,		
(Dollars in thousands)	**2011**	**2010**	**2011 v2010**
Net revenues:			
Management fees	**$ 18,011**	$ 15,730	14.5 %
Performance fees	**1,629**	143	N/M
Total management and performance fees	**19,640**	15,873	23.7
Other income/(loss)	**784**	(205)	N/M
Net revenues	**$ 20,424**	$ 15,668	30.4 %
Pre-tax operating income	**$ 4,948**	$ 2,965	66.9 %
Pre-tax operating margin	**24.2 %**	18.9 %	

N/M - Not meaningful

Management and performance fee revenues comprise all the revenues generated through management and investment advisory services performed for various funds and separately managed accounts. Performance fees are earned when the investment return on assets under management exceeds certain benchmark targets or other performance targets over a specified measurement period. The majority of performance fees, if earned, are recorded in the fourth quarter of the applicable year or upon withdrawal of client assets. Total management and performance fee revenues increased 23.7 percent to $19.6 million in the second quarter of 2011, compared with $15.9 million in the second quarter of 2010. The increase was primarily a result of higher management fee revenue due to market appreciation and increased performance fees recognized as a result of a withdrawal of client assets during the quarter.

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Other income includes gains and losses from our investments in funds and partnerships that we manage. Other income was $0.8 million for the second quarter of 2011 compared with a loss of $0.2 million in the corresponding period in 2010 due to gains in our investments in the funds and partnerships.

Operating expenses for the three months ended June 30, 2011 were $15.5 million, compared to $12.7 million in the prior period in 2010. The increase was due to higher variable compensation costs resulting from increased net revenues and profitability. Segment pre-tax operating margin for the second quarter of 2011 was 24.2 percent, compared to 18.9 percent for the corresponding period in the prior year.

The following table summarizes the changes in our assets under management for the three months ended June 30, 2011:

(Dollars in millions)	
Assets under management:	
Balance at March 31, 2011:	**$ 12,759**
Net inflows/(outflows)	**(364)**
Net market appreciation/(depreciation)	**(32)**
Balance at June 30, 2011:	**$ 12,363**

Assets under management decreased $0.4 billion to $12.4 billion in the second quarter of 2011 resulting primarily from net client outflows as existing institutional clients changed investment strategies and reallocated assets.

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Financial Summary for the Six Months Ended June 30, 2011 and June 30, 2010

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.

	Six Months Ended June 30,			As a Percentage of Net Revenues For the Six Months Ended June 30,	
(Dollars in thousands)	**2011**	**2010**	**2011 v2010**	**2011**	**2010**
Revenues:					
Investment banking	**$ 114,103**	$ 115,493	(1.2) %	**43.8 %**	48.7 %
Institutional brokerage	**85,401**	81,179	5.2	**32.8**	34.2
Asset management	**37,569**	25,027	50.1	**14.4**	10.5
Interest	**27,373**	27,762	(1.4)	**10.5**	11.7
Other income	**12,137**	6,422	89.0	**4.6**	2.8
Total revenues	**276,583**	255,883	8.1	**106.1**	107.9
Interest expense	**15,854**	18,644	(15.0)	**6.1**	7.9
Net revenues	**260,729**	237,239	9.9	**100.0**	100.0
Non-interest expenses:					
Compensation and benefits	**158,921**	142,774	11.3	**61.0**	60.2
Occupancy and equipment	**17,440**	15,725	10.9	**6.7**	6.6
Communications	**12,814**	12,688	1.0	**4.9**	5.3
Floor brokerage and clearance	**4,685**	5,924	(20.9)	**1.8**	2.5
Marketing and business development	**12,935**	11,417	13.3	**5.0**	4.8
Outside services	**14,925**	15,739	(5.2)	**5.7**	6.6
Intangible asset amortization expense	**4,138**	3,180	30.1	**1.6**	1.4
Other operating expenses	**6,203**	8,960	(30.8)	**2.3**	3.8
Total non-interest expenses	**232,061**	216,407	7.2	**89.0**	91.2
Income before income tax expense	**28,668**	20,832	37.6	**11.0**	8.8
Income tax expense	**10,102**	13,103	(22.9)	**3.9**	5.5
Net income	**18,566**	7,729	140.2	**7.1**	3.3
Net income/(loss) applicable to noncontrolling interests	**639**	(159)	N/M	**0.2**	0.0

Net income applicable to Piper Jaffray Companies	**$**	**17,927**	$	7,888	127.3 %	**6.9 %**	3.3 %

N/M - Not meaningful

Except as discussed below, the description of non-interest expense and net revenues as well as the underlying reasons for variances to prior year are substantially the same as the comparative quarterly discussion.

For the six months ended June 30, 2011, we recorded net income applicable to Piper Jaffray Companies of $17.9 million. Net revenues for the six months ended June 30, 2011 were $260.7 million, a 9.9 percent increase from the year-ago period. For the six months ended June 30, 2011, investment banking revenues were $114.1 million, essentially flat compared with the prior-year period. For the six months ended June 30, 2011, institutional brokerage revenues increased 5.2 percent to $85.4 million, compared with $81.2 million in the corresponding period in the prior year as increased fixed income brokerage revenue was partially offset by a decline in equity brokerage revenues. For the first half of 2011, asset management fees were $37.6 million, compared with $25.0 million in the prior-year period. The increased revenues were driven by a full six months of revenue for ARI, which we acquired on March 1, 2010. Net interest income for the first six months of 2011 increased 26.3 percent to $11.5 million, compared with $9.1 million for the first six months of 2010. The increase was primarily the result of higher interest income earned on net inventory balances, particularly related to municipal securities and hybrid preferred securities. Other income for the six months ended June 30, 2011 increased to $12.1 million, compared with $6.4 million in the corresponding period in the prior year. The increase was due to gains recorded on our merchant banking activities and firm investments. Non-interest expenses increased to $232.1 million for the six months ended June 30, 2011, from $216.4 million in the corresponding period in the prior year.

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Consolidated Non-Interest Expenses

Compensation and Benefits - For the six months ended June 30, 2011, compensation and benefits expenses increased 11.3 percent to $158.9 million from $142.8 million in the corresponding period in 2010. This increase was due to higher variable compensation costs resulting from increased net revenues and profitability, and a full six months of compensation and benefits expense related to ARI. Compensation and benefits expenses as a percentage of net revenues were 61.0 percent for the first six months of 2011, compared with 60.2 percent for the first six months of 2010.

Marketing and Business Development - Marketing and business development expenses include travel and entertainment and promotional and advertising costs. For the six months ended June 30, 2011, marketing and business development expenses increased 13.3 percent to $12.9 million, compared with $11.4 million in the first half of 2010. This increase was driven by travel expenses written-off related to deals that were never completed due to volatility in the capital markets in the first quarter of 2011 and a full six months of travel expenses related to ARI.

Intangible Asset Amortization Expense - Intangible asset amortization expense include the amortization of definite-lived intangible assets consisting of asset management contractual relationships, non-compete agreements and certain trade names and trademarks. For the six months ended June 30, 2011, intangible asset amortization expense was $4.1 million, compared with $3.2 million for the prior-year period. The increase in 2011 reflects a full six months of intangible asset amortization expense related to the acquisition of ARI.

Income Taxes - For the six months ended June 30, 2011, our provision for income taxes was $10.1 million, equating to an effective tax rate of 35.2 percent. For the six months ended June 30, 2010, our provision for income taxes was $13.1 million equating to an effective tax rate of 62.9 percent. Income tax expense recorded in the first half of 2010 was high compared to pre-tax income because of a $5.3 million write-off of a deferred tax asset resulting from a restricted stock grant that vested at a share price lower than the grant date share price. For more information on the write-off of this deferred tax asset, see Income Taxes within our Critical Accounting Policies.

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Segment Performance

The following table provides our segment performance for the periods presented:

	Six Months Ended June 30, 2011	2010	2011 v2010
(Dollars in thousands)			
Net revenues			
Capital Markets	**$ 222,105**	$ 212,417	4.6 %
Asset Management	**38,624**	24,822	55.6
Total net revenues	**$ 260,729**	$ 237,239	9.9 %
Pre-tax operating income			
Capital Markets	**$ 19,446**	$ 16,118	20.6 %
Asset Management	**9,222**	4,714	95.6
Total pre-tax operating income	**$ 28,668**	$ 20,832	37.6 %
Pre-tax operating margin			
Capital Markets	8.8 %	7.6 %	
Asset Management	23.9 %	19.0 %	
Total pre-tax operating margin	11.0 %	8.8 %	

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Capital Markets

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010	2011 v2010
(Dollars in thousands)			
Net revenues:			
Investment banking			
Financing			
Equities	**$ 55,667**	$ 51,764	7.5 %
Debt	**28,249**	29,536	(4.4)
Advisory services	**31,558**	35,172	(10.3)
Total investment banking	**115,474**	116,472	(0.9)
Institutional sales and trading			
Equities	**47,080**	54,428	(13.5)
Fixed income	**51,583**	37,109	39.0
Total institutional sales and trading	**98,663**	91,537	7.8
Other income	**7,968**	4,408	80.8
Total net revenues	**$ 222,105**	$ 212,417	4.6 %
Pre-tax operating income	**$ 19,446**	$ 16,118	20.6 %
Pre-tax operating margin	8.8 %	7.6 %	

Capital Markets net revenues increased 4.6 percent to $222.1 million in the first half of 2011, compared with $212.4 million in the prior-year period.

For the first half of 2011, investment banking revenues were essentially flat at $115.5 million compared with the corresponding period in 2010, due to a decline in debt financing and advisory services revenues, offset by increased equity financing revenues. For the six months ended June 30, 2011, equity financing revenues increased to $55.7 million, compared with $51.8 million in the prior-year period, resulting from increased average revenue per transaction from U.S.-based issuers equity financing activity, partially offset by lower Asia equity financing activity and our exit from origination of European securities completed in the fourth quarter of 2010. During the six months ended June 30, 2011, we completed 43 equity financings (39 related to U.S.-based issuers), raising $9.3 billion in capital for our clients, compared with 44 equity financings (38 related to U.S.-based issuers), raising $5.3 billion for the corresponding period in 2010. Debt financing revenues in the first half of 2011 decreased 4.4 percent to $28.2 million, compared with $29.5 million in the corresponding period of 2010 due to a decline in public finance revenues. In the first half of 2011, our public finance revenues were negatively impacted by a significant industry-wide decline in municipal underwriting. For the industry, par value of new issuances dropped 47 percent due to reduced borrowing from state and local governments and the higher than average municipal issuance levels in the fourth quarter of 2010 as municipalities took advantage of the expiring Build America Bond program. However, in the first half of 2011, our par value from new issuances dropped 10 percent as we completed 242 public finance issues with a total par value of $3.0 billion, compared with 237 public finance issues with a total par value of $3.3 billion during the prior-year period. We expect the municipal markets to remain challenging during 2011. For the six months ended June 30, 2011, advisory services revenues decreased 10.3 percent to $31.6 million due to lower U.S. advisory services activity, partially offset by higher European advisory services revenue. We completed 17 transactions with an aggregate enterprise value of $2.2 billion during the first half of 2011, compared with 23 transactions with an aggregate enterprise value of $6.3 billion in the half of 2010.

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For the six months ended June 30, 2011, institutional brokerage revenues increased 7.8 percent to $98.7 million, compared with $91.5 million in the prior-year period. Equity institutional brokerage revenues decreased to $47.1 million in the second half of 2011, compared with $54.4 million in the prior period in 2010. For the six months ended June 30, 2011, fixed income institutional brokerage revenues increased to $51.6 million, compared with $37.1 million in the prior-year period.

For the six months ended June 30, 2011, other income increased to $8.0 million, compared with $4.4 million in the corresponding period in 2010, primarily as a result of gains associated with our merchant banking activities and firm investments.

Capital Markets segment pre-tax operating margin for the six months ended June 30, 2011 increased to 8.8 percent, compared to 7.6 percent for the corresponding period in the prior year. The improvement was a result of lower non-compensation expenses and higher net revenues compared to the prior-year period.

Asset Management

(Dollars in thousands)	**Six Months Ended June 30, 2011**	**2010**	**2011 v2010**
Net revenues:			
Management fees	**$ 35,823**	$ 24,545	45.9 %
Performance fees	**1,746**	482	262.2
Total management and performance fees	**37,569**	25,027	50.1
Other income/(loss)	**1,055**	(205)	N/M
Net revenues	**$ 38,624**	$ 24,822	55.6 %
Pre-tax operating income	**$ 9,222**	$ 4,714	95.6 %
Pre-tax operating margin	**23.9 %**	19.0 %	

N/M - Not meaningful

Total management and performance fee revenues increased 50.1 percent to $37.6 million in the first half of 2011, compared with $25.0 million in the first half of 2010, due to the recognition of a full six months of ARI s management fee revenues and increased performance fees recognized as a result of a withdrawal of client assets.

For the six months ended June 30, 2011, other income/loss was a gain of $1.1 million compared with a loss of $0.2 million for the corresponding period in the prior year.

Operating expenses for the six months ended June 30, 2011 were $29.4 million, compared to $20.1 million in the corresponding period in the prior year. Segment pre-tax operating margin for the six months ended June 30, 2011 was 23.9 percent, compared to 19.0 percent for the corresponding period in the prior year.

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The following table summarizes the changes in our assets under management for the six months ended June 30, 2011:

(Dollars in millions)	
Assets under management:	
Balance at December 31, 2010	**$ 12,297**
Net inflows/(outflows)	**(567)**
Net market appreciation/(depreciation)	**633**
Balance at June 30, 2011	**$ 12,363**

For the six months ended June 30, 2011, assets under management remained essentially flat at $12.4 billion. The $0.6 billion increase in market appreciation resulted from market appreciation of the underlying assets in the funds as ARI product offerings and the FAMCO master-limited partnership product outperformed their respective benchmarks. Offsetting the market appreciation was net cash client outflows of $0.6 billion as existing institutional clients changed investment strategies and reallocated assets.

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, 2010. We believe that of our significant accounting policies, the following are our critical accounting policies.

Valuation of Financial Instruments

Financial instruments and other inventory positions owned, financial instruments and other inventory positions sold, but not yet purchased, and certain firm investments on our consolidated statements of financial condition consist of financial instruments recorded at fair value, either as required by accounting guidance or through the fair value election. 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 an orderly transaction between market participants. The degree of judgment used in measuring fair value of financial instruments generally correlates to the level of pricing observability. 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.

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A substantial percentage of the fair value of our financial instruments and other inventory positions owned, and financial instruments and other inventory positions sold, but not yet purchased, are based on observable market prices, observable market parameters, or derived from broker or dealer prices. The availability of observable market prices and pricing parameters can vary from product to product and significant management judgment does not affect the determination of fair value. 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 may involve some degree of judgment. Results from valuation models and other valuation techniques in one period may not be indicative of the future period fair value measurement.

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 such financial instruments are the cost, terms and liquidity of the investment, the financial condition and operating results of the issuer, the quoted market price of publicly traded securities with similar quality and yield, and other factors generally pertinent to the valuation of investments. In instances where a security is subject to transfer restrictions, the value of the security is based primarily on the quoted price of a similar security without restriction but may be reduced by an amount estimated to reflect such restrictions. 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 example, we assume that the size of positions 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 current estimated fair value.

Depending upon the product and terms of the transaction, the fair value of the Company s derivative contracts can be observed or priced using models based on the net present value of estimated future cash flows. Our models generally incorporate inputs that we believe are representative of inputs other market participants would use to determine fair value of the same instruments, including contractual terms, market prices, yield curves, credit curves and measures of volatility. The valuation models and underlying assumptions are monitored over the life of the derivative product. If there are any changes necessary in the underlying inputs, the model is updated for those new inputs.

FASB Accounting Standards Codification Topic 820, Fair Value Measurements and Disclosures, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The objective of a fair value measurement is to determine the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level I measurements) and the lowest priority to inputs with little or no pricing observability (Level III measurements). Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

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The following table reflects the composition of our Level III assets and Level III liabilities by asset class:

(Dollars in thousands)	Level III June 30, 2011	Level III December 31, 2010
Assets:		
Financial instruments and other inventory positions owned:		
Corporate securities:		
Equity securities	**$ -**	$ 1,340
Convertible securities	**3,603**	2,885
Fixed income securities	**459**	6,268
Municipal securities:		
Tax-exempt securities	**4,193**	6,118
Short-term securities	**175**	125
Asset-backed securities	**35,205**	45,170
Derivative contracts	**935**	4,665
Total financial instruments and other inventory positions owned:	**44,570**	66,571
Investments	**20,648**	9,682
Total assets	**$ 65,218**	$ 76,253
Liabilities:		
Financial instruments and other inventory positions sold, but not yet purchased:		
Corporate securities:		
Convertible securities	**$ -**	$ 1,777
Fixed income securities	**3,278**	2,323
Asset-backed securities	**-**	2,115
Derivative contracts	**4,385**	339
Total financial instruments and other inventory positions sold, but not yet purchased:	**$ 7,663**	$ 6,554

The following table reflects activity with respect to our Level III assets and liabilities:

(Dollars in thousands)	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Assets:		
Purchases/(sales), net	**$ (15,259)**	$ (7,382)
Net transfers in/(out)	**4,478**	14,653
Realized gains/(losses)	**1,352**	5,602
Unrealized gains/(losses)	**(1,606)**	7,685
Liabilities:		
(Purchases)/sales, net	**$ (2,662)**	$ (6,008)
Net transfers in/(out)	**(1,777)**	(3,872)
Realized gains/(losses)	**1,524**	(1)
Unrealized gains/(losses)	**4,024**	260

See Note 6 in the consolidated financial statements for additional discussion of Level III assets and liabilities.

We employ specific control processes to determine the reasonableness of the fair value of our financial instruments. Our processes are designed to ensure that the values received or internally estimated are accurately recorded and that the data inputs and the valuation techniques used are appropriate, consistently applied, and that the assumptions are reasonable and consistent with the objective of determining fair value. Individuals outside of the trading departments obtain independent fair values, as appropriate. Where a pricing model is used to determine fair value, recently executed comparable transactions and other observable market data are considered for purposes of validating assumptions underlying the valuation technique. These control processes are designed to ensure that the values used for financial reporting are based on observable inputs wherever possible. In the event that observable inputs are not available, the control processes are designed to ensure that the valuation approach utilized is appropriate and consistently applied and that the assumptions are reasonable.

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Goodwill and Intangible Assets

We record all assets and liabilities acquired in purchase acquisitions, including goodwill and other intangible assets, at fair value. Determining the fair value of assets and liabilities acquired requires certain management estimates. At June 30, 2011, we had goodwill of $322.7 million. This goodwill balance primarily consists of $152.3 million recorded in 2010 as a result of the acquisition of ARI, $50.1 million recorded in 2007 as a result of the acquisition of FAMCO, and $105.5 million as a result of the 1998 acquisition by U.S. Bancorp of our predecessor, Piper Jaffray Companies Inc., and its subsidiaries.

Under FASB Accounting Standards Codification Topic 350, Intangibles Goodwill and Other, we are required to perform impairment tests of our goodwill and indefinite-life intangible assets annually and on an interim basis when certain events or circumstances exist that could indicate possible impairment. 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 reporting units based on the following factors: our market capitalization, a discounted cash flow model using revenue and profit forecasts, 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. The estimated fair values of our reporting units are compared with their carrying values, which includes the allocated goodwill. If the estimated fair values are 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.

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. Our estimated cash flows typically extend for five years and, by their nature, are difficult to determine over an extended time period. 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. 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 reporting units, 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.

We completed our annual goodwill impairment testing as of November 30, 2010, and no impairment was identified. We also tested the intangible assets (indefinite and definite-life) acquired as part of the FAMCO and ARI acquisitions and concluded there was no impairment.

Stock-Based Compensation

As part of our compensation to employees and directors, we use stock-based compensation, consisting of restricted stock and stock options. The Company accounts for equity awards in accordance with FASB Accounting Standards Codification Topic 718, Compensation Stock Compensation, (ASC 718), which requires all share-based payments to employees, including grants of employee stock options, to be recognized in the consolidated statements of operations at grant date fair value over the service period of the award, net of estimated forfeitures. We grant shares of restricted stock to current employees as part of year-end compensation (Annual Grants) and as a retention tool. Employees may receive restricted stock upon initial hiring or as a retention award (Sign-on Grants). We have also granted restricted stock awards with service conditions to key employees (Retention Grants), as well as restricted stock awards with performance conditions to members of senior management (Performance Grants). Upon closing of the ARI acquisition in March 2010, we granted restricted stock to ARI employees (Inducement Grants).

Annual Grants are made each February for the prior fiscal year performance and constitute a portion of an employee s annual incentive for the prior year. We recognize the compensation expense prior to the grant date of the award as we determined that the service inception date precedes the grant date. These grants are not subject to service requirements that employees must fulfill in exchange for the right to these awards, as the grants continue to vest after termination of employment, 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. Prior to 2011, Annual Grants were subject to three-year cliff vesting. Beginning in 2011, Annual Grants are subject to annual ratable vesting over a three-year period. Unvested shares are subject to post-termination restrictions. These post-termination restrictions do not meet the criteria for an in-substance service condition as defined by ASC 718. Accordingly, such shares of restricted stock comprising Annual Grants are expensed in the period to which those awards are deemed to be earned, which is the calendar year preceding the February grant date. If any of these awards are forfeited, the lower of the fair value at grant date or the fair value at the date of forfeiture is recorded within the consolidated statements of operations as other income.

Sign-on Grants are used as a recruiting tool for new employees and are issued to current employees as a retention tool. The majority of these awards have three-year cliff vesting terms and employees must fulfill service requirements in exchange for the right to the awards. Compensation expense is amortized on a straight-line basis from the date of grant over the requisite service period. Employees forfeit unvested shares upon termination of employment and a reversal of the related compensation expense is recorded.

Retention Grants and Inducement Grants are subject to ratable vesting based upon a five-year service requirement and are amortized as compensation expense on a straight-line basis from the grant date over the requisite service period. Employees forfeit unvested retention shares upon termination of employment and a reversal of compensation expense is recorded.

Performance-based restricted stock awards granted in 2008 and 2009 cliff vest upon meeting a specific performance-based metric prior to May 2013. Performance Grants are amortized on a straight-line basis over the period we expect the performance target to be met. The performance condition must be met for the awards to vest and total compensation cost will be recognized only if the performance condition is satisfied. The probability that the performance conditions will be achieved and that the awards will vest is reevaluated each reporting period with changes in actual or estimated outcomes accounted for using a cumulative effect adjustment to compensation expense.

Stock-based compensation granted to our non-employee directors is in the form of unrestricted common shares of Piper Jaffray Companies stock. The stock-based compensation paid to directors is immediately expensed and is included in our results of operations as outside services expense as of the date of grant.

We granted stock options in fiscal years 2004 through 2008. The options were expensed on a straight-line basis over the required service period, based on the estimated fair value of the award on the grant date using a Black-Scholes option-pricing model. This model required management to exercise judgment with respect to certain assumptions, including the expected dividend yield, the expected volatility, and the expected life of the options. As described above pertaining to our Annual Grants of restricted shares, stock options granted to employees were expensed in the calendar year preceding the annual February grant.

Contingencies

We are involved in various pending and potential legal proceedings related to our business, including litigation, arbitration and regulatory proceedings. Some of these matters involve claims for substantial amounts, including claims for punitive and other special damages. We have, after consultation with outside legal counsel and consideration of facts currently known by management, recorded estimated losses in accordance with FASB Accounting Standards Codification Topic 450, 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.

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Given the uncertainties regarding timing, size, volume and outcome of pending and potential legal proceedings and other factors, the amounts of reserves are difficult to determine and of necessity subject to future revision. 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, 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, the results of operations in that period could be materially adversely affected.

Income Taxes

We file a consolidated U.S. federal income tax return, which includes all of our qualifying subsidiaries. We also are subject to income tax in various states and municipalities and those foreign jurisdictions in which we operate. Amounts provided for income taxes are based on income reported for financial statement purposes and do not necessarily represent amounts currently payable. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and for tax loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income taxes are provided for temporary differences in reporting certain items, principally, amortization of share-based compensation. The realization of deferred tax assets is assessed and a valuation allowance is recorded to the extent that it is more likely than not that any portion of the deferred tax asset will not be realized. We believe that our future taxable profits will be sufficient to recognize our U.S. and Asia subsidiary deferred tax assets. However, if our projections of future taxable profits do not materialize, we may conclude that a valuation allowance is necessary, which would impact our results of operations in that period. Given the underperformance and uncertainties of the Asian markets, we will continue to evaluate the need to establish a valuation allowance for our Hong Kong subsidiary s $2.3 million deferred tax asset. We have recorded a deferred tax asset valuation allowance of $7.2 million related to U.K. subsidiary net operating loss carry-forwards.

We record deferred tax benefits for future tax deductions expected upon the vesting of share-based compensation. If deductions reported on our tax return for share-based compensation (i.e., the value of the share-based compensation at the time of vesting) exceed the cumulative cost of those instruments recognized for financial reporting (i.e., the grant date fair value of the compensation computed in accordance with ASC 718), we record the excess tax benefit as additional paid-in capital. Conversely, if deductions reported on our tax return for share-based compensation are less than the cumulative cost of those instruments recognized for financial reporting, we offset the deficiency first to any previously recognized excess tax benefits recorded as additional paid-in capital and any remaining deficiency is recorded as income tax expense. As of June 30, 2011, we had $0.4 million of available excess tax benefits within additional paid-in capital.

We establish reserves for uncertain income tax positions in accordance with FASB Accounting Standards Codification Topic 740, Income Taxes, when it is not more likely than not that a certain position or component of a position will be ultimately upheld by the relevant taxing authorities. Significant judgment is required in evaluating uncertain tax positions. Our tax provision and related accruals include the impact of estimates for uncertain tax positions and changes to the reserves that are considered appropriate. To the extent the probable tax outcome of these matters changes, such change in estimate will impact the income tax provision in the period of change and, in turn, our results of operations.

Liquidity, Funding 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.

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The majority of our tangible assets consist of assets readily convertible into cash. Financial instruments and other inventory positions owned are stated at fair value and are generally readily marketable in most market conditions. Receivables and payables with customers and brokers and dealers usually settle within a few days. As part of our liquidity strategy, we emphasize diversification of funding sources to the extent possible and maximize our lower-cost financing alternatives. Our assets are financed by our cash flows from operations, equity capital, and other funding arrangements. The fluctuations in cash flows from financing activities are directly related to daily operating activities from our various businesses.

The following are financial instruments that are cash and cash equivalents, or are deemed by management to be generally readily convertible into cash, marginable or accessible for liquidity purposes within a relatively short period of time:

(Dollars in thousands)	June 30, 2011	December 31, 2010
Cash and cash equivalents:		
Cash in banks	**$ 54,216**	$ 40,679
Money market investments	**15,857**	9,923
Total cash and cash equivalents	**70,073**	50,602
Cash and securities segregated (1)	**30,006**	27,006
	$ 100,079	$ 77,608

(1) Consists of deposits in accordance with Rule 15c3-3 of the Securities Exchange Act of 1934, which subjects Piper Jaffray & Co., our U.S. broker dealer subsidiary carrying client accounts, to requirements related to maintaining cash or qualified securities in a segregated reserve account for the exclusive benefit of our clients.

A portion of these financial instruments are held within our regulated entities and are limited by net capital requirements to provide liquidity to those entities only. Our regulated entities could seek regulatory approval to dividend these financial instruments to the Parent for liquidity purposes however this could curtail our revenue producing activities within our regulated entities if it reduced our net capital.

Certain market conditions can impact the liquidity of our inventory positions, requiring us to hold larger inventory positions for longer than expected or requiring us to take other actions that may adversely impact our results.

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

We currently do not pay cash dividends on our common stock and do not plan to in the foreseeable future. Additionally, we maintain a bank syndicated credit agreement, as described in Note 13 to our consolidated financial statements, and it includes a restrictive covenant that restricts our ability to pay cash dividends.

In 2010, our board of directors authorized the repurchase of up to $75 million in shares of our common stock through September 30, 2012. In the second quarter of 2011, we did not repurchase any shares of our common stock related to this authorization. Based upon prior repurchases, $57.4 million of this authorization remains available as of June 30, 2011.

Funding Sources

Short-term financing

Our day-to-day funding and liquidity is obtained primarily through the use of repurchase agreements, commercial paper issuance, and bank lines of credit, and is typically collateralized by our securities inventory. These funding sources are critical to our ability to finance and hold inventory, which is a necessary part of our institutional brokerage business. The majority of our inventory is very liquid and is therefore funded by overnight facilities. However, we have established and structured certain funding sources with longer maturities (i.e., our committed line and commercial paper) to mitigate changes in the liquidity of our inventory based on changing market conditions. Our funding sources are also dependent on the types of inventory counterparties are willing to accept as collateral and the number of counterparties available. We currently have a limited number of counterparties that will enter into municipal repurchase agreements. The majority of our bank lines and commercial paper will accept municipal inventory which helps mitigate this municipal repurchase counterparty risk. We also have established arrangements to obtain financing by another broker dealer at the end of each business day related specifically to our convertible inventory. Funding is generally obtained at rates based upon the federal funds rate and/or the London Interbank Offer Rate.

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Uncommitted Lines - We use uncommitted lines in the ordinary course of business to fund a portion of our daily operations, and the amount borrowed under our uncommitted lines varies daily based on our funding needs. Our uncommitted secured lines total $275 million with three banks and are dependent on having appropriate collateral, as determined by the bank agreement, to secure an advance under the line. Collateral limitations could reduce the amount of funding available under these secured lines. We also have a $100 million uncommitted unsecured facility with one of these banks. These uncommitted lines are discretionary and are not a commitment by the bank to provide an advance under the line. These lines are subject to approval by the respective bank each time an advance is requested and advances may be denied. We manage our relationships with the banks that provide these uncommitted facilities in order to have appropriate levels of funding for our business. At June 30, 2011, we had $110.3 million in advances against these lines of credit.

Committed Lines - Our committed line is a $250 million revolving secured credit facility. We use this credit facility in the ordinary course of business to fund a portion of our daily operations, and the amount borrowed under the facility varies daily based on our funding needs. Advances under this facility are secured by certain marketable securities. The facility includes a covenant that requires Piper Jaffray & Co., our U.S. broker dealer subsidiary, to maintain a minimum net capital of $150 million, and the unpaid principal amount of all advances under the facility will be due on December 30, 2011. At June 30, 2011, we had no advances against our committed line of credit.

Commercial Paper Program - We issue secured commercial paper to fund a portion of our securities inventories. The maximum amount that may be issued under the program is $300 million, of which $114.3 million was outstanding at June 30, 2011. The commercial paper notes are secured by our securities inventory with maturities on the commercial paper ranging from 28 days to 270 days from the date of issuance.

The following table presents the average balances outstanding for our various short-term funding sources by quarter for 2011 and 2010, respectively.

	Average Balance for the Three Months Ended	
(Dollars in millions)	**June 30, 2011**	March 31, 2011
Funding source:		
Repurchase agreements	**$ 326.5**	$ 253.6
Commercial paper	**117.9**	112.1
Short-term bank loans	**68.7**	24.7
Total	**$ 513.1**	$ 390.4

	Average Balance for the Three Months Ended			
(Dollars in millions)	Dec. 31, 2010	Sept. 30, 2010	June 30, 2010	March 31, 2010
Funding source:				
Repurchase agreements	$ 259.8	$ 278.7	$ 342.3	$ 92.3
Commercial paper	106.6	58.8	46.8	31.1
Short-term bank loans	37.3	6.7	95.1	74.4
Securities lending	-	-	9.8	27.7
Total	$ 403.7	$ 344.2	$ 494.0	$ 225.5

The average funding in the second quarter of 2011 increased to $513.1 million, compared with $390.4 million during the first quarter of 2011, due to the timing of incentive and tax payments which occurred later in the first quarter of 2011.

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The average funding balance for the second quarter of 2011 was $513.1 million, compared with $494.0 million in the second quarter of 2010. This increase was a result of changes in net inventory and timing of cash flows from operations.

Three-year bank syndicated credit agreement

On December 29, 2010, we entered into a three-year bank syndicated credit agreement (Credit Agreement), comprised of a $100 million amortizing term loan and a $50 million revolving credit facility. SunTrust Bank is the Administrative Agent (Agent) for the lenders. The term loan amortizes 10 percent in year one, 25 percent in year two and 65 percent in year three. As of June 30, 2011, $25.0 million was outstanding on the revolving credit facility, and $95.0 million was outstanding on the amortizing term loan.

The Credit Agreement includes customary events of default, including failure to pay principal when due or failure to pay interest within three business days of when due, failure to comply with the covenants in the Credit Agreement and related documents, failure to pay or another event of default under other material indebtedness in an amount exceeding $5 million, bankruptcy or insolvency of the Company or any of our subsidiaries, a change in control of the Company or a failure of Piper Jaffray & Co. to extend, renew or refinance our existing $250 million committed revolving secured credit facility on substantially the same terms as the existing committed facility. If there is any event of default under the Credit Agreement, the Agent may declare the entire principal and any accrued interest on the loans under the Credit Agreement to be due and payable and exercise other customary remedies.

The Credit Agreement includes covenants that, among other things, limit our leverage ratio, require maintenance of certain levels of cash and regulatory net capital, require our asset management segment to achieve minimum earnings before interest, taxes, depreciation and amortization, and impose certain limitations on our ability to make acquisitions and make payments on our capital stock. With respect to the net capital covenant, our U.S. broker dealer subsidiary is required to maintain minimum net capital of $160 million. At June 30, 2011, we were in compliance with all covenants.

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, 2010.

Capital Requirements

As a registered broker dealer and member firm of FINRA, our U.S. broker dealer subsidiary is subject to the uniform net capital rule of the SEC and the net capital rule of FINRA. 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. FINRA may prohibit a member firm from expanding its business or paying dividends if resulting net capital would be less than 5 percent of aggregate debit balances. Advances to affiliates, repayment of subordinated liabilities, dividend payments and other equity withdrawals are subject to certain notification and other provisions of the uniform net capital rules. We expect that these provisions will not impact our ability to meet current and future obligations. We also are subject to certain notification requirements related to withdrawals of excess net capital from our broker dealer subsidiary. At June 30, 2011, our net capital under the SEC s Uniform Net Capital Rule was $188.7 million, and exceeded the minimum net capital required under the SEC rule by $186.9 million.

Although we operate with a level of net capital substantially greater than the minimum thresholds established by FINRA and the SEC, a substantial reduction of our capital would curtail many of our Capital Markets revenue producing activities.

Piper Jaffray Ltd., our broker dealer subsidiary registered in the United Kingdom, is subject to the capital requirements of the U.K. Financial Services Authority. Each of our Piper Jaffray Asia entities licensed by the Hong Kong Securities and Futures Commission is subject to the liquid capital requirements of the Securities and Futures (Financial Resources) Rule promulgated under the Securities and Futures Ordinance.

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Off-Balance Sheet Arrangements

In the ordinary course of business we enter into various types of off-balance sheet arrangements. The following table summarizes our off-balance sheet arrangements at June 30, 2011 and December 31, 2010:

Expiration Per Period at June 30, 2011							**Total Contractual Amount**	
(Dollars in thousands)	**Remainder of 2011**	**2012**	**2013**	**2014-2015**	**2016-2017**	**Later**	**June 30, 2011**	**December 31, 2010**
Customer matched-book derivative contracts *(1)(2)*	$ -	$ -	$ 50,990	$ 181,317	$ 153,556	$ 5,677,693	**$ 6,063,556**	$ 6,505,232
Trading securities derivative contracts *(2)*	-	-	-	-	-	154,750	**154,750**	192,250
Credit default swap index contracts *(2)*	-	-	-	180,000	-	-	**180,000**	200,000
Foreign currency forward contracts *(2)*	-	-	-	-	-	-	**-**	16,645
Private equity and other principal investments *(3)*	10,000	-	-	-	-	-	**11,958**	2,618

(1) *Consists of interest rate swaps. We have minimal market risk related to these matched-book derivative contracts; however, we do have counterparty risk with two major financial institutions, which is mitigated by collateral deposits. In addition, we have a limited number of counterparties (contractual amount of $206.3 million at June 30, 2011) who are not required to post collateral. Based on market movements, the uncollateralized amounts representing the fair value of the derivative contracts could become material, exposing us to the credit risk of these counterparties. At June 30, 2011, we had $17.4 million of credit exposure with these counterparties, including $8.6 million of credit exposure with one counterparty.*

(2) *We believe the fair value of these derivative contracts is a more relevant measure of the obligations because we believe the notional or contract amount overstates the expected payout. At June 30, 2011 and December 31, 2010, the net fair value of these derivative contracts approximated an asset of $23.7 million and $29.3 million, respectively.*

(3) *We have committed capital of $12.0 million to certain entities, typically partnerships. Certain of these commitments have no specific call date.*

Derivatives

Derivatives notional contract amounts are not reflected as assets or liabilities on our consolidated statements of financial condition. Rather, the market value, or fair value, of the derivative transactions are reported on the consolidated statements of financial condition as assets or liabilities in financial instruments and other inventory positions owned and financial instruments and other inventory positions sold, but not yet purchased, as applicable. Derivatives are presented on a net basis by counterparty when a legal right of offset exists and on a net basis by cross product when applicable provisions are stated in a master netting agreement.

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 hedge the interest rate and market value risks associated with our security positions. Our interest rate hedging strategies may not work in all market environments and as a result may not be effective in mitigating interest rate risk. For a complete discussion of our activities related to derivative products, see Note 5, Financial Instruments and Other Inventory Positions Owned and Financial Instruments and Other Inventory Positions Sold, but Not Yet Purchased, in the notes to our consolidated financial statements.

Loan Commitments

We may commit to bridge loan financing for our clients or make commitments to underwrite corporate debt. We had no loan commitments outstanding at June 30, 2011.

Private Equity and Other Principal Investments

As of June 30, 2011, we have investments in various entities, typically partnerships or limited liability companies, established for the purpose of investing in securities of public or private companies or municipal debt obligations. We commit capital or act as the managing partner of these entities. Some of these entities are deemed to be variable interest entities. For a complete discussion of our activities related to these types of entities, see Note 7, Variable Interest Entities, to our consolidated financial statements.

We have committed capital to certain entities and these commitments generally have no specified call dates. We had $12.0 million of commitments outstanding at June 30, 2011, of which $10.0 million was funded on July 1, 2011.

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Enterprise Risk Management

Risk is an inherent part of our business. In the course of conducting business operations, we are exposed to a variety of risks. Market risk, liquidity risk, credit risk, operational risk, legal, regulatory and compliance risk, and reputational 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.

With respect to market risk and credit risk, the cornerstone of our risk management process is daily communication among traders, trading department management and senior management concerning our inventory positions and overall risk profile. Our risk management functions supplement this communication process by providing their independent perspectives on our market and credit risk profile on a daily basis. The broader goals of our risk management functions are to understand the risk profile of each trading area, to consolidate risk monitoring company-wide, to assist in implementing effective hedging strategies, to articulate large trading or position risks to senior management, and to ensure accurate mark-to-market pricing.

In addition to supporting daily risk management processes on the trading desks, our risk management functions support our financial risk committee. This committee oversees risk management practices, including defining acceptable risk tolerances and approving risk management policies.

Risk management techniques, processes and strategies may not be fully effective in mitigating our risk exposure in all market environments or against all types of risk, and any risk management failures could expose us to material unanticipated losses.

Market Risk

Market risk represents the risk of financial volatility that may result from the change in value of a financial instrument due to fluctuations in its market price. Our exposure to market risk is directly related to our role as a financial intermediary for our clients, to our market-making activities and our proprietary activities. Market risks are inherent to both cash and derivative financial instruments. The scope of our market risk management policies and procedures includes all market-sensitive financial instruments.

Our different types of market risk include:

Interest Rate Risk - Interest rate risk represents the potential volatility from changes in market interest rates. We are exposed to interest rate risk arising from changes in the level and volatility of interest rates, changes in the shape of the yield curve, changes in credit spreads, and the rate of prepayments. Interest rate risk is managed through the use of appropriate hedging in U.S. government securities, agency securities, mortgage-backed securities, corporate debt securities, interest rate swaps, options, futures and forward contracts. We utilize interest rate swap contracts and MMD rate lock agreements to hedge a portion of our fixed income inventory. Our interest rate hedging strategies may not work in all market environments and as a result may not be effective in mitigating interest rate risk. These interest rate swap contracts are recorded at fair value with the changes in fair value recognized in earnings.

Equity Price Risk - Equity price risk represents the potential loss in value due to adverse changes in the level or volatility of equity prices. We are exposed to equity price risk through our trading activities in the U.S. market on both listed and over-the-counter equity markets. We attempt to reduce the risk of loss inherent in our market-making and in our inventory of equity securities by establishing limits on the notional level of our inventory and by managing net position levels within those limits.

Currency Risk - Currency risk arises from the possibility that fluctuations in foreign exchange rates will impact the value of financial instruments. A portion of our business is conducted in currencies other than the U.S. dollar, and changes in foreign exchange rates relative to the U.S. dollar can therefore affect the value of non-U.S. dollar net assets, revenues and expenses. A change in the foreign currency rates could create either a foreign currency transaction gain/loss (recorded in our consolidated statements of operations) or a foreign currency translation adjustment (recorded to other comprehensive income within the shareholders equity section of our consolidated statements of financial condition).

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Value-at-Risk

Value-at-Risk (VaR) is the potential loss in value of our trading positions due to adverse market movements over a defined time horizon with a specified confidence level. We perform a daily VaR analysis on substantially all of our trading positions, including fixed income, equities, convertible bonds, exchange traded options, and all associated economic hedges. These positions encompass both customer-related activities and proprietary investments. We use a VaR model because it provides a common metric for assessing market risk across business lines and products. Changes in VaR between reporting periods are generally due to changes in levels of risk exposure, volatilities and/or correlations among asset classes and individual securities.

We use a Monte Carlo simulation methodology for VaR calculations. We believe this methodology provides VaR results that properly reflect the risk profile of all our instruments, including those that contain optionality, and also accurately models correlation movements among all of our asset classes. In addition, it provides improved tail results as there are no assumptions of distribution, and can provide additional insight for scenario shock analysis.

Model-based VaR derived from simulation has inherent limitations including: reliance on historical data to predict future market risk; VaR calculated using a one-day time horizon does not fully capture the market risk of positions that cannot be liquidated or offset with hedges within one day; and published VaR results reflect past trading positions while future risk depends on future positions.

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.

The following table quantifies the model-based VaR simulated for each component of market risk for the periods presented computed using the past 250 days of historical data. When calculating VaR we use a 95 percent confidence level and a one-day time horizon. 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. Shortfalls on a single day can exceed reported VaR by significant amounts. Shortfalls can also accumulate over a longer time horizon, such as a number of consecutive trading days. Therefore, 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.

(Dollars in thousands)	**June 30, 2011**	**December 31, 2010**
Interest Rate Risk	**$ 1,062**	$ 810
Equity Price Risk	**116**	40
Diversification Effect (1)	**(135)**	(47)
Total Value-at-Risk	**$ 1,043**	$ 803

(1) Equals the difference between total VaR and the sum of the VaRs for the two risk categories. This effect arises because the two market risk categories are not perfectly correlated.

We view average VaR over a period of time as more representative of trends in the business than VaR at any single point in time. The table below illustrates the daily high, low and average value-at-risk calculated for each component of market risk during the six months ended June 30, 2011 and the year ended December 31, 2010, respectively.

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For the Six Months Ended June 30, 2011

(Dollars in thousands)	High	Low	Average
Interest Rate Risk	$ 1,815	$ 604	$ 1,035
Equity Price Risk	1,601	25	347
Diversification Effect (1)			(303)
Total Value-at-Risk	$ 1,777	$ 589	$ 1,079

For the Year Ended December 31, 2010

(Dollars in thousands)	High	Low	Average
Interest Rate Risk	$ 4,359	$ 178	$ 1,451
Equity Price Risk	3,414	27	220
Diversification Effect (1)			(238)
Total Value-at-Risk	$ 4,227	$ 165	$ 1,433

(1) Equals the difference between total VaR and the sum of the VaRs for the two risk categories. This effect arises because the two market risk categories are not perfectly correlated. Because high and low VaR numbers for these risk categories may have occurred on different days, high and low numbers for diversification benefit would not be meaningful.

Trading losses incurred on a single day exceeded our one-day VaR on two occasions during the first half of 2011.

The aggregate VaR as of June 30, 2011 was higher compared to levels reported as of December 31, 2010. Although inventory levels are similar to those reported at the end of 2010, the current inventory is made up of assets with more spread and volatility sensitivity, resulting in higher VaR.

In addition to VaR, we also employ additional measures to monitor and manage market risk exposure including the following: net market position, duration exposure, option sensitivities, and inventory turnover. All metrics are aggregated by asset concentration and are used for monitoring limits and exception approvals.

Liquidity Risk

Market risk can be exacerbated in times of trading illiquidity when market participants refrain from transacting in normal quantities and/or at normal bid-offer spreads. Depending on the specific security, the structure of the financial product, and/or overall market conditions, we may be forced to hold a security for substantially longer than we had planned. Our inventory positions subject us to potential financial losses from the reduction in value of illiquid positions.

We are also exposed to liquidity risk in our day-to-day funding activities. We have a relatively low leverage ratio of 2.64 as of June 30, 2011. We calculate our leverage ratio by dividing total assets by total shareholders equity. We manage liquidity risk by diversifying our funding sources across products and among individual counterparties within those products. For example, our treasury department actively manages the use of our committed bank line, repurchase agreements, securities lending arrangements, commercial paper issuance and secured and unsecured bank borrowings each day depending on pricing, availability of funding, available collateral and lending parameters from any one of these sources.

In addition to managing our capital and funding, the treasury department oversees the management of net interest income risk and the overall use of our capital, funding, and balance sheet.

We currently act as the remarketing agent for approximately $4.9 billion of variable rate demand notes, all of which have a financial institution providing a liquidity guarantee. At certain times, demand from buyers of variable rate demand notes is less than the supply generated by sellers of these instruments. In times of supply and demand imbalance, we may (but are not obligated to) facilitate liquidity by purchasing variable rate demand notes from sellers for our own account. Our liquidity risk related to variable rate demand notes is ultimately mitigated by our ability to tender these securities back to the financial institution providing the liquidity guarantee.

Credit Risk

Credit risk in our business arises from potential non-performance by counterparties, customers, borrowers or issuers of securities we hold in our trading inventory. The global credit crisis also has created increased credit risk, particularly counterparty risk, as the interconnectedness of the financial markets has caused market participants to be impacted by systemic pressure, or contagion, that results from the failure or potential failure of market participants.

We have concentrated counterparty credit exposure with six non-publicly rated entities totaling $17.4 million at June 30, 2011. This counterparty credit exposure is part of our derivative program, consisting primarily of interest rate swaps. One derivative counterparty represents 49.5 percent, or $8.6 million, of this exposure. Credit exposure associated with our derivative counterparties is driven by uncollateralized market movements in the fair value of the interest rate swap contracts and is monitored regularly by our financial risk committee.

We are exposed to credit risk in our role as a trading counterparty to dealers and customers, as a holder of securities and as a member of exchanges and clearing organizations. Our client activities involve the execution, settlement and financing of various transactions. Client activities are transacted on a delivery versus payment, cash or margin basis. Our credit exposure to institutional client business is mitigated by the use of industry-standard delivery versus payment through depositories and clearing banks.

Credit exposure associated with our customer margin accounts in the U.S. and Hong Kong is monitored daily. Our risk management functions have created credit risk policies establishing appropriate credit limits and collateralization thresholds for our customers utilizing margin lending.

Credit exposure associated with our merchant banking debt investments is monitored regularly by our financial risk committee. Merchant banking debt investments that have been funded are recorded in other assets at amortized cost on the consolidated statements of financial condition. At June 30, 2011, we had one funded merchant banking debt investment totaling $7.0 million.

Our risk management functions review risk associated with institutional counterparties with whom we hold repurchase and resale agreement facilities, stock borrow or loan facilities, derivatives, TBAs and other documented institutional counterparty agreements that may give rise to credit exposure. Counterparty levels are established relative to the level of counterparty ratings and potential levels of activity.

We are subject to credit concentration risk if we hold large individual securities positions, execute large transactions with individual counterparties or groups of related counterparties, extend large loans to individual borrowers or make substantial underwriting commitments. Concentration risk can occur by industry, geographic area or type of client. Potential credit concentration risk is carefully monitored and is managed through the use of policies and limits.

We also are exposed to the risk of loss related to changes in the credit spreads of debt instruments. Credit spread risk arises from potential changes in an issuer s credit rating or the market s perception of the issuer s credit worthiness. We use credit default swap index contracts to mitigate this risk.

Operational Risk

Operational risk refers to the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. We rely on the ability of our employees, our internal systems and processes and systems at computer centers operated by third parties to process a large number of transactions. In the event of a breakdown or improper operation of our systems or processes or improper action by our employees or third-party vendors, we could suffer financial loss, regulatory sanctions and damage to our reputation. We have business continuity plans in place that we believe will cover critical processes on a company-wide basis, and redundancies are built into our systems as we have deemed appropriate. These control mechanisms attempt to ensure that operations policies and procedures are being followed and that our various businesses are operating within established corporate policies and limits.

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Legal, Regulatory and Compliance Risk

Legal, regulatory and compliance risk includes the risk of non-compliance with applicable legal and regulatory requirements and the risk that a counterparty s performance obligations will be unenforceable. We are generally subject to extensive regulation in the various jurisdictions in which we conduct our business. We have established procedures that are designed to ensure compliance with applicable statutory and regulatory requirements, including, but not limited to, those related to regulatory net capital requirements, sales and trading practices, use and safekeeping of customer funds and securities, credit extension, money-laundering, privacy and recordkeeping.

We have established internal policies relating to ethics and business conduct, and compliance with applicable legal and regulatory requirements, as well as training and other procedures designed to ensure that these policies are followed.

Reputation and Other Risk

We recognize that maintaining our reputation among clients, investors, regulators and the general public is critical. Maintaining our reputation depends on a large number of factors, including the conduct of our business activities and the types of clients and counterparties with whom we conduct business. We seek to maintain our reputation by conducting our business activities in accordance with high ethical standards and performing appropriate reviews of clients and counterparties.

Effects of Inflation

Because our assets are liquid in nature, they are not significantly affected by inflation. However, the rate of inflation affects our expenses, such as employee compensation, office space leasing costs and communications charges, which may not be readily recoverable in the price of services we offer to our clients. To the extent inflation results in rising interest rates and has other adverse effects upon the securities markets, it may adversely affect our financial position and results of operations.

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 the fiscal year ending December 31, 2011, there was no change in our system of internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. *LEGAL PROCEEDINGS.*

The discussion of our business and operations should be read together with the legal proceedings contained in Part I, Item 3 Legal Proceedings in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 or, as updated in our subsequent reports on Form 10-Q filed with the SEC.

ITEM 1A. *RISK FACTORS.*

The discussion of our business and operations should be read together with the risk factors contained in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 filed with the SEC, as updated in our subsequent reports on Form 10-Q filed with the SEC. These risk factors describe various risks and uncertainties to which we are or may become subject. These risks and uncertainties have the potential to affect our business, financial condition, results of operations, cash flows, strategies or prospects in a material and adverse manner.

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

The table below sets forth the information with respect to purchases made by or on behalf of Piper Jaffray Companies or any affiliated purchaser (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of our common stock during the quarter ended June 30, 2011.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)
Month #1				
(April 1, 2011 to April 30, 2011)	-	$ -	0	$ 57 million
Month #2				
(May 1, 2011 to May 31, 2011)	31,867 (2)	$ 32.64	0	$ 57 million
Month #3				
(June 1, 2011 to June 30, 2011)	-	$ -	0	$ 57 million
Total	31,867	$ 32.64	0	$ 57 million

(1) On July 28, 2010, we announced that our board of directors had authorized the repurchase of up to $75 million of common stock through September 30, 2012.

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

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.

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ITEM 6. ***EXHIBITS.***

Exhibit Number	Description	Method of Filing
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
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Statements of Financial Condition as of June 30, 2011 and December 31, 2010, (ii) the Consolidated Statements of Operations for the three and six months ended June 30, 2011 and 2010, (iii) the Consolidated Statements of Cash Flows for the six months ended June 30, 2011 and 2010 and (iv) the notes to the Consolidated Financial Statements, tagged as blocks of text.	Filed herewith

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on August 4, 2011.

PIPER JAFFRAY COMPANIES

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

By /s/ Debbra L. Schoneman
Its Chief Financial Officer

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