PIPER JAFFRAY COMPANIES
Form 10-Q
August 03, 2007

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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, 2007

OR

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

For the transition period from__________to__________

Commission File No. 001-31720
PIPER JAFFRAY COMPANIES
(Exact name of registrant as specified in its charter)

DELAWARE (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 o

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

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

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

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

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Index to Quarterly Report on Form 10-Q

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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, 2007** (Unaudited)	December 31, 2006
Assets		
Cash and cash equivalents	**$ 22,624**	$ 39,903
Cash and cash equivalents segregated for regulatory purposes	**25,000**	25,000
Receivables:		
Customers	**58,610**	51,441
Brokers, dealers and clearing organizations	**134,337**	312,874
Deposits with clearing organizations	**26,421**	30,223
Securities purchased under agreements to resell	**128,149**	139,927
Trading securities owned	**711,279**	776,684
Trading securities owned and pledged as collateral	**87,278**	89,842
Total trading securities owned	**798,557**	866,526
Fixed assets (net of accumulated depreciation and amortization of $52,008 and $48,603, respectively)	**25,958**	25,289
Goodwill	**231,567**	231,567
Intangible assets (net of accumulated amortization of $4,133 and $3,333, respectively)	**667**	1,467
Other receivables	**41,040**	39,347
Other assets	**84,628**	88,283
Total assets	**$ 1,577,558**	$ 1,851,847
Liabilities and Shareholders Equity		
Short-term bank financing	**$ 33,000**	$
Payables:		
Customers	**72,537**	83,899
Checks and drafts	**9,522**	13,828
Brokers, dealers and clearing organizations	**42,187**	210,955
Securities sold under agreements to repurchase	**54,599**	91,293
Trading securities sold, but not yet purchased	**218,533**	217,584
Accrued compensation	**85,990**	164,346
Other liabilities and accrued expenses	**113,871**	145,503
Total liabilities	**630,239**	927,408

Shareholders equity:		
Common stock, $0.01 par value:		
Shares authorized: 100,000,000 at June 30, 2007 and December 31, 2006;		
Shares issued: 19,487,319 at June 30, 2007 and December 31, 2006;		
Shares outstanding: 17,081,693 at June 30, 2007 and 16,984,474 at December 31, 2006	**195**	195
Additional paid-in capital	**722,674**	723,928
Retained earnings	**348,428**	325,684
Less common stock held in treasury at cost: 2,406,492 shares at June 30, 2007 and 2,502,845 shares at December 31, 2006	**(124,779)**	(126,026)
Other comprehensive income	**801**	658
Total shareholders equity	**947,319**	924,439
Total liabilities and shareholders equity	**$ 1,577,558**	$ 1,851,847

See Notes to Consolidated Financial Statements

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Piper Jaffray Companies
Consolidated Statements of Operations
(Unaudited)

(Amounts in thousands, except per share data)	**Three Months Ended June 30, 2007**	**Three Months Ended June 30, 2006**	**Six Months Ended June 30, 2007**	**Six Months Ended June 30, 2006**
Revenues:				
Investment banking	**$ 75,597**	$ 63,604	**$ 159,330**	$ 134,085
Institutional brokerage	**37,174**	38,157	**79,102**	82,818
Interest	**13,816**	13,521	**31,226**	28,206
Other income	**406**	(889)	**987**	12,396
Total revenues	**126,993**	114,393	**270,645**	257,505
Interest expense	**4,417**	9,143	**11,119**	17,296
Net revenues	**122,576**	105,250	**259,526**	240,209
Non-interest expenses:				
Compensation and benefits	**71,707**	60,653	**151,823**	133,577
Occupancy and equipment	**8,849**	6,718	**16,571**	14,827
Communications	**5,997**	5,593	**12,256**	10,976
Floor brokerage and clearance	**4,176**	3,373	**7,691**	6,048
Marketing and business development	**6,380**	6,122	**12,061**	11,301
Outside services	**9,122**	6,836	**16,439**	13,128
Cash award program	**390**	886	**746**	2,161
Other operating expenses	**804**	2,910	**4,204**	7,347
Total non-interest expenses	**107,425**	93,091	**221,791**	199,365
Income from continuing operations before income tax expense	**15,151**	12,159	**37,735**	40,844
Income tax expense	**4,774**	4,230	**12,636**	14,209
Net income from continuing operations	**10,377**	7,929	**25,099**	26,635
Discontinued operations:				
Income/(loss) from discontinued operations, net of tax	**(1,051)**	(3,792)	**(2,355)**	1,359

Net income	**$ 9,326**	$ 4,137	**$ 22,744**	$ 27,994
Earnings per basic common share				
Income from continuing operations	**$ 0.61**	$ 0.43	**$ 1.47**	$ 1.44
Income/(loss) from discontinued operations	**(0.06)**	(0.20)	**(0.14)**	0.07
Earnings per basic common share	**$ 0.55**	$ 0.22	**$ 1.33**	$ 1.51
Earnings per diluted common share				
Income from continuing operations	**$ 0.58**	$ 0.40	**$ 1.40**	$ 1.37
Income/(loss) from discontinued operations	**(0.06)**	(0.19)	**(0.13)**	0.07
Earnings per diluted common share	**$ 0.52**	$ 0.21	**$ 1.27**	$ 1.44
Weighted average number of common shares outstanding				
Basic	**17,073**	18,556	**17,072**	18,509
Diluted	**17,919**	19,669	**17,969**	19,408

See Notes to Consolidated Financial Statements

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Piper Jaffray Companies
Consolidated Statements of Cash Flows
(Unaudited)

(Dollars in thousands)	**Six Months Ended June 30, 2007**	2006
Operating Activities:		
Net income	**$ 22,744**	$ 27,994
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	**4,413**	7,874
Deferred income taxes	**8,123**	(8,797)
Loss on disposal of fixed assets	**314**	359
Stock-based compensation	**12,503**	14,634
Amortization of intangible assets	**800**	800
Forgivable loan reserve		200
Decrease (increase) in operating assets:		
Receivables:		
Customers	**(7,217)**	(9,265)
Brokers, dealers and clearing organizations	**178,566**	162,667
Deposits with clearing organizations	**3,802**	6,039
Securities purchased under agreements to resell	**11,778**	(21,039)
Net trading securities owned	**69,093**	(40,567)
Other receivables	**(1,424)**	(13,843)
Other assets	**(4,551)**	(11,487)
Increase (decrease) in operating liabilities:		
Payables:		
Customers	**(11,364)**	37,488
Checks and drafts	**(4,306)**	(17,163)
Brokers, dealers and clearing organizations	**(169,257)**	8,455
Securities sold under agreements to repurchase	**1,465**	(161)
Accrued compensation	**(77,923)**	(44,106)
Other liabilities and accrued expenses	**(31,690)**	33,391
Assets held for sale		24,489
Liabilities held for sale		(24,204)
Net cash provided by operating activities	**5,869**	133,758
Investing Activities:		
Purchases of fixed assets, net	**(5,500)**	(5,281)
Net cash used in investing activities	**(5,500)**	(5,281)

Financing Activities:		
Increase (decrease) in securities loaned	**408**	(4,559)
Decrease in securities sold under agreements to repurchase	**(38,159)**	(47,450)
Increase in short-term bank financing	**33,000**	
Repurchase of common stock	**(17,442)**	
Excess tax benefits from stock-based compensation	**2,068**	
Proceeds from stock option transactions	**2,266**	
Net cash used in financing activities	**(17,859)**	(52,009)
Currency adjustment:		
Effect of exchange rate changes on cash	**211**	830
Net increase (decrease) in cash and cash equivalents	**(17,279)**	77,298
Cash and cash equivalents at beginning of period	**39,903**	60,869
Cash and cash equivalents at end of period	**$ 22,624**	$ 138,167
Supplemental disclosure of cash flow information -		
Cash paid during the period for:		
Interest	**$ 10,822**	$ 22,063
Income taxes	**$ 1,815**	$ 24,588
Non-cash financing activities -		
Issuance of common stock for retirement plan obligations:		
8,619 shares and 190,966 shares for the six months ended June 30, 2007 and 2006 respectively	**$ 598**	$ 9,013

See Notes to Consolidated Financial Statements

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

Note 1 *Background*

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

Basis of Presentation

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

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

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

Note 2 *Summary of Significant Accounting Policies*

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

Note 3 *Recent Accounting Pronouncements*

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

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

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

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

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

Note 4 *Discontinued Operations*

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

In accordance with the provisions of Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144), the results of PCS operations have been classified as discontinued operations for all periods presented. The Company recorded a loss from discontinued operations, net of tax, of $1.1 million and $2.4 million for the three months and six months ended June 30, 2007, respectively, related to the cost of decommissioning a PCS-oriented back office system, litigation-related expenses and restructuring charges. The Company expects to incur additional discontinued operations costs in the third quarter of 2007 related to decommissioning the PCS-oriented back office system. In addition, the Company may incur discontinued operations expense or income related to changes in litigation reserve estimates for retained PCS litigation matters and for changes in estimates to occupancy and severance restructuring charges.

In connection with the sale of the Company s PCS branch network, the Company initiated a plan in 2006 to significantly restructure the Company s support infrastructure. All restructuring costs related to the sale of the PCS

branch network are included within discontinued operations in accordance with SFAS 144. See Note 12 for additional information regarding the Company s restructuring activities.

Note 5 *Derivatives*

Derivative contracts are financial instruments such as forwards, futures, swaps or option contracts that derive their value from underlying assets, reference rates, indices or a combination of these factors. A derivative contract generally represents future commitments to purchase or sell financial instruments at specified terms on a specified date or to exchange currency or interest payment streams based on the contract or notional amount. Derivative contracts exclude certain cash instruments, such as mortgage-backed securities, interest-only and principal-only obligations and indexed debt instruments that derive their values or contractually required cash flows from the price of some other security or index.

The Company uses interest rate swaps, interest rate locks, and forward contracts to facilitate customer transactions and as a means to manage risk in certain inventory positions. The Company also enters into interest rate swap agreements to manage interest rate exposure associated with holding residual interest securities from its tender option bond program. As of June 30, 2007 and December 31, 2006, the Company was counterparty to notional/contract amounts of $6.6 billion and $5.8 billion, respectively, of derivative instruments.

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

Fair values for derivative contracts represent amounts estimated to be received from or paid to a counterparty in settlement of these instruments. These derivatives are valued using quoted market prices when available or pricing models based on the net present value of estimated future cash flows. The valuation models used require inputs including contractual terms, market prices, yield curves, credit curves and measures of volatility. The net fair value of derivative contracts was approximately $28.3 million and $19.7 million as of June 30, 2007 and December 31, 2006, respectively.

Note 6 *Securitizations*

In connection with its tender option bond program, the Company securitizes highly rated municipal bonds. At June 30, 2007 and December 31, 2006, the Company had $296.7 million and $279.2 million, respectively, of par value of municipal bonds in securitization. Each municipal bond is sold into a separate trust that is funded by the sale of variable rate certificates to institutional customers seeking variable rate tax-free investment products. These variable rate certificates reprice weekly. Securitization transactions meeting certain SFAS 140 criteria are treated as sales, with the resulting gain included in other income on the consolidated statements of operations. If a securitization does not meet the sale-of-asset requirements of SFAS 140, the transaction is recorded as a borrowing. The Company retains a residual interest in each structure and accounts for the residual interest as a trading security, which is recorded at fair value on the consolidated statements of financial condition. The fair value of retained interests was $3.9 million and $8.1 million at June 30, 2007 and December 31, 2006, respectively, with a weighted average life of 8.5 years and 8.4 years, respectively. The fair value of retained interests is estimated based on the present value of future cash flows using management s best estimates of the key assumptions expected yield, credit losses of 0 percent and a 12 percent discount rate. At June 30, 2007, the sensitivity of the current fair value of retained interests to immediate 10 percent and 20 percent adverse changes in the key economic assumptions was not material. The Company receives a fee to remarket the variable rate certificates derived from the securitizations.

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

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

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Three securitization transactions were designed such that they did not meet the asset sale requirements of SFAS 140, and as a result, the Company has consolidated these trusts. Accordingly, the Company recorded an asset for the underlying bonds of $49.5 million and $51.2 million as of June 30, 2007 and December 31, 2006 respectively, in trading securities owned and a liability for the certificates sold by the trust for $48.6 million and $50.1 million as of June 30, 2007 and December 31, 2006 respectively, in other liabilities and accrued expenses on the consolidated statements of financial condition.

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

The Company has contracted with a major third-party financial institution to act as the liquidity provider for the Company s tender option bond securitized trusts. The Company has agreed to reimburse this party for any losses associated with providing liquidity to the trusts. The maximum exposure to loss at June 30, 2007 was $269.4 million, representing the outstanding amount of all trust certificates at those dates. This exposure to loss is mitigated by the underlying bonds in the trusts, which are either AAA or AA rated. These bonds had a market value of approximately $275.9 million at June 30, 2007. The Company believes the likelihood it will be required to fund the reimbursement agreement obligation under any provision of the arrangement is remote, and accordingly, no liability for such a guarantee has been recorded in the accompanying consolidated financial statements.

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

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

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

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

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

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

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

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Note 8 *Trading Securities Owned and Trading Securities Sold, but Not Yet Purchased*

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

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

At June 30, 2007 and December 31, 2006, trading securities owned in the amount of $87.3 million and $89.8 million, respectively, had been pledged as collateral for the Company s secured borrowings, repurchase agreements and securities loaned activities.

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

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Note 9 *Goodwill and Intangible Assets*

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

(Dollars in thousands)	
Goodwill	
Balance at December 31, 2006	**$ 231,567**
Goodwill acquired	
Impairment losses	
Balance at June 30, 2007	**$ 231,567**

(Dollars in thousands)	
Intangible assets	
Balance at December 31, 2006	**$ 1,467**
Intangible assets acquired	
Amortization of intangible assets	(800)
Impairment losses	
Balance at June 30, 2007	**$ 667**

Note 10 *Financing*

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

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

Note 11 *Legal Contingencies*

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

The Company has established reserves for potential losses that are probable and reasonably estimable that may result from pending and potential complaints, legal actions, investigations and proceedings. In addition to the Company s established reserves, U.S. Bancorp, from whom the Company spun-off from on December 31, 2003, has agreed to indemnify the Company in an amount up to $17.5 million for certain legal and regulatory matters. Approximately $13.2 million of this amount remained available as of June 30, 2007.

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

litigation matters deemed to be probable and reasonably estimable are included in the Company s established reserves. Adjustment to litigation reserves for matters pertaining to the PCS business are included within discontinued operations on the consolidated statements of operations.

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

Note 12 *Restructuring*

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

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

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

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

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

Note 13 *Shareholders Equity*

Share Repurchase Program

In the third quarter of 2006, the Company s board of directors authorized the repurchase of up to $180.0 million in common shares through December 31, 2007. The Company executed an accelerated stock repurchase under this authorization in the amount of $100 million during 2006. During the six months ended June 30, 2007, the Company repurchased 158,687 shares of the Company s common stock at an average price of $63.02 per share for an aggregate purchase price of $10 million. The Company has $70.0 million remaining under this authorization.

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Issuance of Shares

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

Note 14 *Geographic Areas*

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

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

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

Note 15 *Earnings Per Share*

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

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

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

The Company maintains one stock-based compensation plan, the Long-Term Incentive Plan. The plan permits the grant of equity awards, including non-qualified stock options and restricted stock, to the Company s employees and

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

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

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

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

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

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

The fair value of each stock option is estimated on the date of grant using the Black-Scholes option-pricing model using assumptions such as the risk-free interest rate, the dividend yield, the expected volatility and the expected life of the option. The risk-free interest rate assumption is based on the U.S. treasury bill rate with a maturity equal to the expected life of the option. The dividend yield assumption is based on the assumed dividend payout over the expected life of the option. The expected volatility assumption for 2007 grants is based on a combination of Company historical data and industry comparisons. The Company has only been a publicly traded company for approximately 42 months; therefore, it does not have sufficient historical data to determine an appropriate expected volatility solely from the Company s own historical data. The expected life assumption is based on an average of the following two factors: 1) industry comparisons; and 2) the guidance provided by the SEC in Staff Accounting Bulletin No. 107, (SAB 107). SAB 107 allows the use of an acceptable methodology under which the Company can take the midpoint of the vesting date and the full contractual term. The following table provides a summary of the valuation assumptions used by the Company to determine the estimated value of stock option grants in Piper Jaffray Companies common stock for the six months ended June 30:

	2007	**2006**

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

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

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

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

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

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

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

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

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

Note 17 *Net Capital Requirements and Other Regulatory Matters*

As a registered broker dealer and member firm of the New York Stock Exchange (NYSE), Piper Jaffray is subject to the uniform net capital rule of the SEC and the net capital rule of the NYSE. Piper Jaffray has elected to use the alternative method permitted by the SEC rule, which requires that it maintain minimum net capital of the greater of $1.0 million or 2 percent of aggregate debit balances arising from customer transactions, as such term is defined in the

SEC rule. Under the NYSE rule, the NYSE may prohibit a member firm from expanding its business or paying dividends if resulting net capital would be less than 5 percent of aggregate debit balances. Advances to affiliates, repayment of subordinated debt, dividend payments and other equity withdrawals by Piper Jaffray are subject to certain notification and other provisions of the SEC and NYSE rules. In addition, Piper Jaffray is subject to certain notification requirements related to withdrawals of excess net capital.

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At June 30, 2007, net capital calculated under the SEC rule was $357.9 million, and exceeded the minimum net capital required under the SEC rule by $356.1 million.

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

Note 18 *Income Taxes*

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

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

Note 19 *Definitive Agreement to Acquire Fiduciary Asset Management LLC*

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

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

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

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

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

Executive Overview

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

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

Discontinued operations include the operating results of our Private Client Services (PCS) retail brokerage business and related restructuring costs. We closed on the sale of our PCS branch network and certain related assets to UBS Financial Services, Inc., a subsidiary of UBS AG (UBS), on August 11, 2006. Our PCS retail brokerage business provided financial advice and a wide range of financial products and services to individual investors through a network of approximately 90 branch offices. In the second quarter of 2007, discontinued operations recorded a net loss of $1.1 million, which included costs related to decommissioning a retail-oriented back-office system, costs for PCS litigation-related expenses and restructuring charges. We expect to incur additional costs in the third quarter of 2007 related to decommissioning the retail-oriented back office system. Costs associated with implementing a new back-office system to support our capital markets business will be recorded in continuing operations. See Notes 4 and 12 to our unaudited consolidated financial statements for a further discussion of our discontinued operations and restructuring.

As part of our growth strategy and our efforts to diversify our revenues following the sale of our PCS branch network, we announced on April 13, 2007, the signing of a definitive agreement to acquire Fiduciary Asset Management, LLC (FAMCO) a St. Louis-based investment management firm. This acquisition will allow us to enter the investment management business. We currently expect the transaction to close late in the third quarter of 2007, subject to certain regulatory approvals and customary closing conditions, including the receipt of third party consents. In addition, on July 3, 2007, we entered into a definitive agreement to purchase all equity interests in Goldbond Capital Holdings Limited (Goldbond), an investment bank and financial services company based in Hong Kong. With this acquisition, we will gain capital markets capabilities required to accelerate the growth of our Asia platform, including corporate finance, sales and trading, equity capital markets and research. We also expect this transaction to close late in the third quarter of 2007, subject to customary regulatory approvals. Both of these transactions are important components in our plan to redeploy capital from the sale of our PCS branch network.

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

We plan to continue our focus on revenue growth through expansion of our capital markets business and entry into and expansion of the investment management business. Within our capital markets business, our efforts will be focused on growing our sector expertise, product depth and geographic reach, as demonstrated by the pending acquisition of Goldbond. The pending acquisition of FAMCO will allow us to enter the investment management business. We expect that continued growth of these businesses will come from a combination of internal organic growth and acquisitions. In addition, as opportunities arise we intend to use our capital to a greater extent to facilitate customer activity and engage in principal activities that leverage our expertise. Our principal activities will result in greater commitments of capital on our own behalf, and may include, among other things, proprietary positions in equity or debt securities of public and private companies. Our growth initiatives will require investments in personnel and other expenses, which may have a short-term negative impact on our profitability as it may take time to develop meaningful revenues from the growth initiatives.

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

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

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

EXTERNAL FACTORS IMPACTING OUR BUSINESS

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

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

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Results of Operations
FINANCIAL SUMMARY FOR THE THREE MONTHS ENDED JUNE 30, 2007 AND JUNE 30, 2006

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

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

Net income from continuing operations					
Discontinued operations:					
Loss from discontinued operations, net of tax	(1,051)	(3,792)	(72.3)	(0.9)	(3.7)
Net income	$ 9,326	$ 4,137	125.4%	7.6%	3.9%

N/M Not Meaningful

For the three months ended June 30, 2007, net income, including continuing and discontinued operations, totaled $9.3 million. Net revenues from continuing operations increased 16.5 percent to $122.6 million for the second quarter of 2007. For the three months ended June 30, 2007, investment banking revenues increased 18.9 percent to $75.6 million, compared with revenues of $63.6 million in the prior-year period. This increase in investment banking revenues was attributable to higher equity and public finance underwriting activity, offset in part by lower merger and acquisition revenue. Institutional brokerage revenues decreased 2.6 percent to $37.2 million for the second quarter of 2007, compared with $38.2 million in the corresponding period in the prior year, due primarily to lower equity trading volumes. In the second quarter of 2007, net interest income increased to $9.4 million, compared with $4.4 million in the second quarter of 2006. The increase was primarily driven by significantly reduced borrowing needs following the sale of our PCS branch network in August 2006. In the second quarter of 2007, other income was $0.4 million, compared with a loss of $0.9 million in the prior-year period. The loss in the second quarter of 2006 was a result of a decline in the market value of NYSE Group, Inc. restricted shares that we received in connection with the sale of our two seats on the NYSE. Non-interest expenses increased to $107.4 million for the three months ended June 30, 2007, from $93.1 million in the corresponding period in the prior year. This increase was primarily attributable to higher compensation and benefits, occupancy and outside services expenses.

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NON-INTEREST EXPENSES FROM CONTINUING OPERATIONS

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

For the three months ended June 30, 2007, compensation and benefits expenses increased 18.2 percent to $71.7 million, from $60.7 million in the corresponding period in 2006. This increase was due to higher variable compensation costs resulting from higher investment banking revenues. Compensation and benefits expenses as a percentage of net revenues increased to 58.5 percent for the second quarter of 2007, compared with 57.6 percent for the second quarter of 2006.

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

Communications - Communication expenses include costs for telecommunication and data communication, primarily consisting of expenses for obtaining third-party market data information. For the three months ended June 30, 2007, communication expenses were $6.0 million, an increase of 7.2 percent from the prior-year period. This increase was due to higher market data service expenses from obtaining expanded services and price increases.

Floor Brokerage and Clearance - For the three months ended June 30, 2007, floor brokerage and clearance expenses were $4.2 million, compared with $3.4 million for the three months ended June 30, 2006. This increase was a result of higher expenses associated with accessing electronic communication networks as we increased after market support of deal-related stocks. We anticipate our floor brokerage costs to increase modestly because we have outsourced our NYSE floor trading operations. Expenses from our NYSE floor trading operations have historically been included within compensation and benefits expenses, and will be included within floor brokerage and clearance expenses in future periods.

Marketing and Business Development - Marketing and business development expenses include travel and entertainment and promotional and advertising costs. In the second quarter of 2007, marketing and business development expenses increased to $6.4 million, compared with $6.1 million in the second quarter of 2006. The increase was due to higher travel expenses and increased supply costs.

Outside Services - Outside services expenses include securities processing expenses, outsourced technology functions, outside legal fees and other professional fees. Outside services expenses increased to $9.1 million in the second quarter of 2007, compared with $6.8 million for the prior-year period, an increase of 33.4 percent. This increase was due to expenses related to the implementation of a new back-office system to support our capital markets business and higher outside legal fees. We anticipate incurring additional expenses in the third quarter of 2007 related to the implementation of the new back-office system.

Cash Award Program - In connection with our spin-off from U.S. Bancorp in 2003, we established a cash award program pursuant to which we granted cash awards to a broad-based group of our employees. The award program was designed to aid in retention of employees and to compensate for the value of U.S. Bancorp stock options and restricted stock lost by our employees as a result of the spin-off. The cash awards are being expensed over a four-year period ending December 31, 2007. For the three months ended June 30, 2007, cash awards expense decreased to $0.4 million, compared with $0.9 million in the prior-year period. The sale of our PCS branch network resulted in either the forfeiture or accelerated vesting of approximately half of our cash awards in the prior year period and as a result, our ongoing cash award expense decreased. We anticipate incurring approximately $0.9 million of cash award expense within continuing operations for the remainder of 2007.

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Other Operating Expenses - Other operating expenses include insurance costs, license and registration fees, expenses related to our charitable giving program, amortization of intangible assets and litigation-related expenses, which consist of the amounts we reserve and/or pay out related to legal and regulatory matters. Other operating expenses decreased to $0.8 million in the second quarter of 2007, compared with $2.9 million in second quarter of 2006, primarily due to a decline in litigation-related expenses.

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

NET REVENUES FROM CONTINUING OPERATIONS (DETAIL)

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

N/M Not Meaningful

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

For the three months ended June 30, 2007, investment banking revenues increased 19.3 percent to $77.8 million, compared with $65.2 million in the corresponding period in the prior year. Equity financing revenues increased 51.3 percent to $40.8 million in the second quarter of 2007, due to the completion of a higher number of public equity offerings with higher average revenue per transaction. In the second quarter of 2007, we completed 34 equity financings, raising $4.5 billion in capital, compared with 25 equity financings, raising $3.2 billion in capital, in the prior-year period. Debt financing revenues in the second quarter of 2007 increased 24.5 percent to $25.2 million driven by increased public finance activity. We were the sole underwriter of 138 municipal issues with a par value of

$2.2 billion during the second quarter of 2007, compared with 125 municipal issues with a par value of $1.7 billion in the prior-year period. Advisory services revenues decreased 34.7 percent to $11.7 million in the second quarter of 2007, as we completed fewer merger and acquisition transactions and average revenues per transaction declined. We completed 7 mergers and acquisitions transactions during the second quarter of 2007, compared with 11 mergers and acquisitions transactions in the prior-year period.

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

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

Other income/loss includes gains and losses from investments in private equity and venture capital funds as well as other firm investments and management fees from our private capital business. In addition, other income/loss included interest expense from our subordinated debt prior to its repayment in August 2006. In the second quarter of 2007, other income totaled $0.8 million, compared with a loss of $3.6 million in the three months ended June 30, 2006. The fluctuation is a result of two factors. First, in the third quarter of 2006, we repaid $180 million in subordinated debt, resulting in lower interest expense in the second quarter of 2007. Second, in the second quarter of 2006, we recognized a loss due to a decline in the market value of NYSE Group, Inc. restricted shares that we received from the sale of our two seats on the NYSE.

DISCONTINUED OPERATIONS

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

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

In the second quarter of 2007, discontinued operations recorded a net loss of $1.1 million that included costs related to decommissioning a retail-oriented back-office system, PCS litigation-related expenses and restructuring charges. We expect to incur additional costs in the third quarter of 2007 related to decommissioning the retail-oriented back-office system. In addition, we may incur discontinued operations expense or income related to changes in litigation reserve estimates for retained PCS litigation matters and for changes in estimates to occupancy and severance restructuring charges. See Note 4 to our unaudited consolidated financial statements for further discussion of our discontinued operations.

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

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

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

Net income from continuing operations					
Discontinued operations:					
Income/(loss) from discontinued operations, net of tax	(2,355)	1,359	N/M	(0.9)	0.6
Net income	$ 22,744	$ 27,994	(18.8)%	8.8%	11.7%

N/M not Meaningful

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

For the six months ended June 30, 2007, net income, which includes both continuing and discontinued operations, totaled $22.7 million, an 18.8 percent decrease from the year-ago period. Net revenues from continuing operations increased to $259.5 million for the six months ended June 30, 2007, an increase of 8.0 percent from the corresponding period in the prior year. Investment banking revenues increased 18.8 percent to $159.3 million for the six months ended June 30, 2007, compared with revenues of $134.1 million in the prior-year period. This increase was driven by higher equity and public finance underwriting activity. Institutional brokerage revenues decreased 4.5 percent over the prior-year period to $79.1 million as a result of decreased equity commissions, partially offset by increased revenues related to our high-yield and structured products. Net interest income for the first six months of 2007 increased to $20.1 million, up from $10.9 million for the first six months of 2006. This increase was primarily driven by significantly reduced borrowing needs following the sale of our PCS branch network in August 2006. Other income for the six months ended June 30, 2007 was $1.0 million, compared with $12.4 million for the corresponding period in the prior year. In the first six months of 2006, we recorded a $9.1 million gain related to our ownership of two seats on the NYSE, which were exchanged for cash and restricted shares of the NYSE Group, Inc. Non-interest expenses increased to $221.8 million for the six months ended June 30, 2007, from $199.4 million for the six months ended June 30, 2006. This increase was attributable to increased variable compensation and benefits expenses due to higher investment banking revenues and increased outside services expense due to cost related to implementation of a new back-office system to support our capital markets business.

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NON-INTEREST EXPENSES FROM CONTINUING OPERATIONS

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

NET REVENUES FROM CONTINUING OPERATIONS (DETAIL)

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

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

For the six months ended June 30, 2007, institutional sales and trading revenues were down slightly compared to the prior-year period. Equity institutional sales and trading revenue decreased 6.1 percent for the six months ended June 30, 2007, to $59.1 million. This decline is due to lower volumes and pressure by institutional clients to reduce commissions in our traditional equity sales and trading business. Partially offsetting this decrease is incremental sales

and trading revenue from European sales and trading operations. Fixed income institutional sales and trading revenues increased 6.4 percent to $35.2 million for the six months ended June 30, 2007, compared with $33.1 million for the corresponding period in 2006. We were able to improve year-over-year performance through increased high-yield and structured product revenues.

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DISCONTINUED OPERATIONS

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

Recent Accounting Pronouncements

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

Critical Accounting Policies

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

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

VALUATION OF FINANCIAL INSTRUMENTS

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

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

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

For investments in illiquid or privately held securities that do not have readily determinable fair values, the determination of fair value requires us to estimate the value of the securities using the best information available. Among the factors considered by us in determining the fair value of financial instruments are the cost, terms and liquidity of the investment, the financial condition and operating results of the issuer, the quoted market price of publicly traded securities with similar quality and yield, and other factors generally pertinent to the valuation of investments. In instances where a security is subject to transfer restrictions, the value of the security is based primarily on the quoted price of a similar security without restriction but may be reduced by an amount estimated to reflect such restrictions. In addition, even where the value of a security is derived from an independent source, certain assumptions

may be required to determine the security s fair value. For instance, we assume that the size of positions in securities that we hold would not be large enough to affect the quoted price of the securities if we sell them, and that any such sale would happen in an orderly manner. The actual value realized upon disposition could be different from the currently estimated fair value.

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

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

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

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

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

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

operations and financial condition.

GOODWILL AND INTANGIBLE ASSETS

We record all assets and liabilities acquired in purchase acquisitions, including goodwill, at fair value as required by Statement of Financial Accounting Standards No. 141, Business Combinations. Determining the fair value of assets and liabilities acquired requires certain management estimates. In conjunction with the sale of our PCS branch network to UBS, we wrote-off $85.6 million of goodwill during the third quarter of 2006. At June 30, 2007, we had goodwill of $231.6 million, principally as a result of the 1998 acquisition of our predecessor, Piper Jaffray Companies Inc., and its subsidiaries by U.S. Bancorp.

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

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

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

STOCK-BASED COMPENSATION

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

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

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

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

In determining the estimated fair value of stock options, we use the Black-Scholes option-pricing model. This model requires management to exercise judgment with respect to certain assumptions, including the expected dividend yield, the expected volatility, and the expected life of the options. The expected dividend yield assumption is based on the assumed dividend payout over the expected life of the option. The expected volatility assumption for grants subsequent to December 31, 2006 is based on a combination of our historical data and industry comparisons, as we have limited information on which to base our volatility estimates because we have only been a public company since the beginning of 2004. The expected volatility assumption for grants prior to December 31, 2006 were based solely on

industry comparisons. The expected life of options assumption is based on the average of the following two factors: industry comparisons and the guidance provided by the SEC in Staff Accounting Bulletin No. 107 (SAB 107). SAB 107 allowed the use of an acceptable methodology under which we can take the midpoint of the vesting date and the full contractual term. We believe our approach for calculating an expected life to be an appropriate method in light of the limited historical data regarding employee exercise behavior or employee post-termination behavior. Additional information regarding assumptions used in the Black-Scholes pricing model can be found in Note 16 to our unaudited consolidated financial statements.

CONTINGENCIES

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

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

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

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

Liquidity and Capital Resources

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

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

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

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

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

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

In connection with the sale of our PCS branch network on August 14, 2006, our board of directors authorized the repurchase of up to $180 million in common shares through December 31, 2007. We executed an accelerated share repurchase under this authorization in the amount of $100 million during 2006. In the first quarter of 2007, we repurchased $10 million in common shares. During the second quarter of 2007, we did not repurchase any shares of outstanding common stock under this authorization due to the pending Goldbond announcement. We have $70.0 million remaining under authorization.

FUNDING SOURCES

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

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

As of June 30, 2007, we had uncommitted credit agreements with banks totaling $675 million, comprised of $555 million in discretionary secured lines and $120 million in discretionary unsecured lines. We have been able to obtain necessary short-term borrowings in the past and believe we will continue to be able to do so in the future. We also have established arrangements to obtain financing using as collateral our securities held by our clearing bank or by another broker dealer at the end of each business day.

CONTRACTUAL OBLIGATIONS

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

CAPITAL REQUIREMENTS

As a registered broker dealer and member firm of the NYSE, our broker dealer subsidiary is subject to the uniform net capital rule of the SEC and the net capital rule of the NYSE. We have elected to use the alternative method permitted by the uniform net capital rule, which requires that we maintain minimum net capital of the greater of $1.0 million or 2 percent of aggregate debit balances arising from customer transactions, as this is defined in the rule.

The NYSE may prohibit a member firm from expanding its business or paying dividends if resulting net capital would be less than 5 percent of aggregate debit balances. Advances to affiliates, repayment of subordinated liabilities, dividend payments and other equity withdrawals are subject to certain notification and other provisions of the uniform net capital rule and the net capital rule of the NYSE. We expect that these provisions will not impact our ability to meet current and future obligations. In addition, we are subject to certain notification requirements related to withdrawals of excess net capital from our broker dealer subsidiary. Piper Jaffray Ltd., our registered United Kingdom broker dealer subsidiary, is subject to the capital requirements of the U.K. Financial Services Authority.

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

Off-Balance Sheet Arrangements

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

We enter into arrangements with special-purpose entities (SPEs), also known as variable interest entities. SPEs are corporations, trusts or partnerships that are established for a limited purpose. SPEs, by their nature, generally are not controlled by their equity owners, as the establishing documents govern all material decisions. Our primary involvement with SPEs relates to securitization transactions related to our tender option bond program in which highly rated fixed rate municipal bonds are sold to an SPE. We follow Statement of Financial Accounting Standards No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities - a Replacement of FASB Statement No. 125, (SFAS 140), to account for securitizations and other transfers of financial assets. Therefore, we derecognize financial assets transferred in securitizations provided that such transfer meets all of the SFAS 140 criteria. See Note 6, Securitizations, in the notes to our unaudited consolidated financial statements for a complete discussion of our securitization activities.

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

We enter into derivative contracts in a principal capacity as a dealer to satisfy the financial needs of clients. We also use derivative products to manage the interest rate and market value risks associated with our security positions. For a complete discussion of our activities related to derivative products, see Note 5, Derivatives, in the notes to our unaudited consolidated financial statements.

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

Enterprise Risk Management

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

VALUE-AT-RISK

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

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

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

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

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

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

For the Six Months Ended June 30, 2007

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

For the Year Ended December 31, 2006

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

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

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

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

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is (a) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and (b) accumulated and communicated to our management, including our principal executive officer and principal financial officer to allow timely decisions regarding disclosure. During the second quarter of our fiscal year ended December 31, 2007, there was no change in our system of internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There are no material changes from the legal proceedings previously disclosed in Part I, Item 3 Legal Proceedings of our Annual Report on Form 10-K for the year ended December 31, 2006 and Part II, Item 1 Legal Proceedings of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2007.

ITEM 1A. RISK FACTORS

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

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

There are risks associated with the pending acquisition of Goldbond.

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

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

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

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

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, 2007 to April 30, 2007)	3,409(2)	$ 63.17	0	
Month #2 (May 1, 2007 to May 31, 2007)	3,420(2)	$ 63.51	0	
Month #3 (June 1, 2007 to June 30, 2007)	2,435(2)	$ 61.02	0	
Total	9,264	$ 62.73	0	$70.0 million

(1) On August 14, 2006 we announced that our board of directors had authorized the repurchase of up to $180 million of common shares over a period commencing with the closing of the sale of our PCS branch network to UBS and ending on December 31,

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

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

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

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

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

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

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

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

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ITEM 6. EXHIBITS

Exhibit Number	Description	Method of Filing
2.1	Equity Purchase Agreement, dated July 3, 2007, among Piper Jaffray Companies, all owners of the equity interests in Goldbond Capital Holdings Limited (Sellers), Ko Po Ming, and certain individuals and entities who are owners of certain Sellers	(1)
3.1	Amended and Restated Certificate of Incorporation	Filed herewith
3.2	Amended and Restated Bylaws	Filed herewith
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.	Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.	Filed herewith
32.1	Certifications furnished pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith

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

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on August 3, 2007.

PIPER JAFFRAY COMPANIES

By /s/ Andrew S. Duff

Its Chairman and Chief Executive Officer

By /s/ Thomas P. Schnettler

Its Vice Chairman and Chief Financial Officer

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Exhibit Index

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