

PIPER JAFFRAY COMPANIES

Form 10-Q

November 03, 2010

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

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

**For the Quarterly Period Ended September 30, 2010**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File No. 001-31720**

**PIPER JAFFRAY COMPANIES**

(Exact Name of Registrant as specified in its Charter)

**DELAWARE**

(State or Other Jurisdiction of  
Incorporation or Organization)

**30-0168701**

(IRS Employer Identification No.)

**800 Nicollet Mall, Suite 800**

**Minneapolis, Minnesota**

(Address of Principal Executive Offices)

**55402**

(Zip Code)

**(612) 303-6000**

(Registrant's Telephone Number, Including Area Code)

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

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

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

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

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

As of October 29, 2010, the registrant had 20,790,540 shares of Common Stock outstanding.

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

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**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

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

	<b>September 30, 2010</b>	December 31, 2009
<i>(Amounts in thousands, except share data)</i>	<i>(Unaudited)</i>	
<b>Assets</b>		
Cash and cash equivalents	\$ 38,504	\$ 43,942
Cash and cash equivalents segregated for regulatory purposes	20,006	9,006
Receivables:		
Customers	80,608	71,859
Brokers, dealers and clearing organizations	145,952	262,061
Securities purchased under agreements to resell	259,861	149,682
Financial instruments and other inventory positions owned	523,816	662,618
Financial instruments and other inventory positions owned and pledged as collateral	415,529	137,371
Total financial instruments and other inventory positions owned	939,345	799,989
Fixed assets (net of accumulated depreciation and amortization of \$64,101 and \$59,563, respectively)	20,419	16,596
Goodwill	316,934	164,625
Intangible assets (net of accumulated amortization of \$16,049 and \$10,686, respectively)	61,763	12,067
Other receivables	52,772	33,868
Other assets	124,626	139,635
Total assets	\$ 2,060,790	\$ 1,703,330
<b>Liabilities and Shareholders Equity</b>		
Short-term financing	\$ 107,023	\$ 90,079
Variable rate senior notes	120,000	120,000
Payables:		
Customers	62,292	48,179
Brokers, dealers and clearing organizations	75,308	71,818
Securities sold under agreements to repurchase	313,377	36,134
Financial instruments and other inventory positions sold, but not yet purchased	400,778	335,795
Accrued compensation	88,741	157,022
Other liabilities and accrued expenses	88,589	65,687
Total liabilities	1,256,108	924,714

Shareholders' equity:

Common stock, \$0.01 par value:

Shares authorized: 100,000,000 at September 30, 2010 and December 31, 2009;

Shares issued: 19,509,813 at September 30, 2010 and 19,504,948 at December 31, 2009;

Shares outstanding: 14,702,043 at September 30, 2010 and 15,633,690 at December 31, 2009

	<b>195</b>	195
Additional paid-in capital	<b>836,013</b>	803,553
Retained earnings	<b>170,135</b>	155,193
Less common stock held in treasury, at cost: 4,807,770 shares at September 30, 2010 and 3,871,258 shares at December 31, 2009	<b>(202,508)</b>	(181,443)
Other comprehensive income	<b>847</b>	1,118

Total shareholders' equity	<b>804,682</b>	778,616
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Total liabilities and shareholders' equity	<b>\$ 2,060,790</b>	\$ 1,703,330
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*See Notes to Consolidated Financial Statements*

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
<i>(Amounts in thousands, except per share data)</i>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Revenues:</b>				
Investment banking	\$ 56,243	\$ 48,115	\$ 171,736	\$ 134,615
Institutional brokerage	40,432	59,576	121,611	175,455
Interest	11,497	11,854	39,259	29,024
Asset management	16,812	3,568	41,839	9,817
Other income/(loss)	(368)	3,340	6,054	(1,209)
<b>Total revenues</b>	<b>124,616</b>	126,453	<b>380,499</b>	347,702
<b>Interest expense</b>	<b>8,153</b>	6,784	<b>26,797</b>	11,861
<b>Net revenues</b>	<b>116,463</b>	119,669	<b>353,702</b>	335,841
<b>Non-interest expenses:</b>				
Compensation and benefits	66,058	71,802	208,832	201,503
Occupancy and equipment	8,853	7,703	24,578	21,901
Communications	5,943	5,474	18,631	17,003
Floor brokerage and clearance	2,879	2,974	8,803	9,088
Marketing and business development	5,863	5,498	17,280	13,362
Outside services	7,945	6,234	23,684	21,168
Restructuring-related expenses	1,333	-	1,333	3,572
Other operating expenses	4,011	4,402	15,992	10,700
<b>Total non-interest expenses</b>	<b>102,885</b>	104,087	<b>319,133</b>	298,297
<b>Income before income tax expense</b>	<b>13,578</b>	15,582	<b>34,569</b>	37,544
<b>Income tax expense</b>	<b>6,524</b>	6,316	<b>19,627</b>	19,427
<b>Net income</b>	<b>\$ 7,054</b>	\$ 9,266	<b>\$ 14,942</b>	\$ 18,117
<b>Net income applicable to common shareholders</b>	<b>\$ 5,415</b>	\$ 7,576	<b>\$ 11,671</b>	\$ 14,863

**Earnings per common share**

Basic	\$ 0.36	\$ 0.47	\$ 0.75	\$ 0.93
Diluted	\$ 0.36	\$ 0.47	\$ 0.75	\$ 0.93

**Weighted average number of common shares  
outstanding**

Basic	15,035	16,031	15,588	16,001
Diluted	15,038	16,131	15,626	16,039

*See Notes to Consolidated Financial Statements*

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

<i>(Dollars in thousands)</i>	<b>Nine Months Ended September</b>	
	<b>2010</b>	<b>30, 2009</b>
<b>Operating Activities:</b>		
Net income	\$ 14,942	\$ 18,117
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of fixed assets	5,475	5,318
Deferred income taxes	13,385	7,778
Stock-based compensation	16,140	31,515
Amortization of intangible assets	5,363	1,842
Amortization of forgivable loans	5,411	3,967
Decrease/(increase) in operating assets:		
Cash and cash equivalents segregated for regulatory purposes	(11,000)	10,999
Receivables:		
Customers	(8,856)	(16,518)
Brokers, dealers and clearing organizations	116,098	(6,087)
Securities purchased under agreements to resell	(110,179)	(100,675)
Securitized municipal tender option bonds	-	55,694
Net financial instruments and other inventory positions owned	(74,363)	(28,244)
Other receivables	(15,489)	(2,312)
Other assets	1,912	31,049
Increase/(decrease) in operating liabilities:		
Payables:		
Customers	14,166	3,484
Brokers, dealers and clearing organizations	29,253	68,536
Securities sold under agreements to repurchase	33,988	13,111
Tender option bond trust certificates	-	(59,262)
Accrued compensation	(50,131)	13,228
Other liabilities and accrued expenses	20,227	4,851
 Net cash provided by operating activities	 6,342	 56,391
<b>Investing Activities:</b>		
Business acquisitions, net of cash acquired	(182,105)	-
Purchases of fixed assets, net	(8,961)	(2,275)
 Net cash used in investing activities	 (191,066)	 (2,275)
<b>Financing Activities:</b>		



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Decrease in securities loaned	<b>(25,988)</b>	-
Increase/(decrease) in securities sold under agreements to repurchase	<b>243,255</b>	(53,068)
Increase in short-term financing	<b>16,938</b>	4,000
Repurchase of common stock	<b>(54,902)</b>	(12,601)
Reduced tax benefits from stock-based compensation	-	(2,941)
Proceeds from stock option transactions	<b>98</b>	951
Net cash provided by/(used in) financing activities	<b>179,401</b>	(63,659)
Currency adjustment:		
Effect of exchange rate changes on cash	<b>(115)</b>	335
Net decrease in cash and cash equivalents	<b>(5,438)</b>	(9,208)
Cash and cash equivalents at beginning of period	<b>43,942</b>	49,848
Cash and cash equivalents at end of period	<b>\$ 38,504</b>	\$ 40,640
Supplemental disclosure of cash flow information -		
Cash paid/(received) during the period for:		
Interest	<b>\$ 27,908</b>	\$ 3,225
Income taxes	<b>\$ 4,539</b>	\$ (33,897)
Non-cash investing activities -		
Issuance of common stock for acquisition of Advisory Research Holdings, Inc.:		
893,105 shares for the nine months ended September 30, 2010	<b>\$ 31,822</b>	\$ -
Non-cash financing activities -		
Issuance of common stock for retirement plan obligations:		
81,696 shares and 134,700 shares for the nine months ended September 30, 2010 and 2009, respectively	<b>\$ 3,634</b>	\$ 3,756
Issuance of restricted common stock for annual equity award:		
699,673 shares and 585,198 shares for the nine months ended September 30, 2010 and 2009, respectively	<b>\$ 31,121</b>	\$ 16,331

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

**Capital Markets**

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

**Asset Management**

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

**Basis of Presentation**

The consolidated financial statements include the accounts of Piper Jaffray Companies, its wholly owned subsidiaries and other entities in which the Company has a controlling financial interest. 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, 2009.

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, 2009, for a full description of the Company s significant accounting policies. Changes to the Company s significant accounting policies are described below.



**Table of Contents****Principles of Consolidation**

The consolidated financial statements include the accounts of Piper Jaffray Companies, its wholly owned subsidiaries, and all other entities in which the Company has a controlling financial interest. All material intercompany balances have been eliminated. The Company determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity ( VIE ).

Voting interest entities are entities in which the total equity investment at risk is sufficient to enable each entity to finance itself independently and provides the equity holders with the obligation to absorb losses, the right to receive residual returns and the right or power to make decisions about or direct the entity's activities that most significantly impact the entity's economic performance. Voting interest entities, where we have a majority interest, are consolidated in accordance with Financial Accounting Standards Board ( FASB ) Accounting Standards Codification Topic 810,

Consolidations ( ASC 810 ). ASC 810 states that the usual condition for a controlling financial interest in an entity is ownership of a majority voting interest. Accordingly, the Company consolidates voting interest entities in which it has all, or a majority of, the voting interest.

As defined in ASC 810, VIEs are entities that lack one or more of the characteristics of a voting interest entity described above. With the exception of entities eligible for the deferral codified in FASB Accounting Standards Update ( ASU ) No. 2010-10, Consolidation: Amendments for Certain Investment Funds, ( ASU 2010-10 ) (generally asset managers and investment companies), ASC 810 states that a controlling financial interest in an entity is present when an enterprise has a variable interest, or combination of variable interests, that have both the power to direct the activities of the entity that most significantly impact the entity's economic performance and the obligation to absorb losses of the entity or the rights to receive benefits from the entity that could potentially be significant to the entity. Accordingly, the Company consolidates VIEs in which the Company has a controlling financial interest. For more on ASC 810 and VIEs, please see Consolidation of Variable Interest Entities under Adoption of New Accounting Standards in Note 3 below.

Entities meeting the deferral provision defined by ASU 2010-10 (generally asset managers and investment companies) are evaluated under the historical VIE guidance. Under the historical guidance, a controlling financial interest in an entity is present when an enterprise has a variable interest, or combination of variable interests, that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both. The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE. Accordingly, the Company consolidates VIEs subject to the deferral provisions defined by ASU 2010-10 in which the Company is deemed to be the primary beneficiary.

When the Company does not have a controlling financial interest in an entity but exerts significant influence over the entity's operating and financial policies (generally defined as owning a voting or economic interest of between 20 percent to 50 percent), the Company accounts for its investment in accordance with the equity method of accounting prescribed by FASB Accounting Standards Codification Topic 323, Investments Equity Method and Joint Ventures ( ASC 323 ). If the Company does not have a controlling financial interest in, or exert significant influence over, an entity, the Company accounts for its investment at cost.

**Note 3 *Recent Accounting Pronouncements*****Adoption of New Accounting Standards***Accounting for Transfers of Financial Assets*

In June 2009, the FASB issued guidance amending the Accounting Standards Codification Topic 860, Transfers and Servicing, ( ASC 860 ) designed to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. Additionally, the new guidance eliminates the qualifying special-purpose entity ( QSPE ) concept. The updates were effective for the Company January 1, 2010. The recognition and measurement provisions were effective for prospective transfers with the exception of existing QSPEs which must be evaluated at the time of adoption. The disclosures required by ASC 860 are applied to both retrospective and prospective transfers. The adoption of ASC 860 did not have an impact on the Company's consolidated financial statements.



**Table of Contents***Consolidation of Variable Interest Entities*

In June 2009, the FASB updated the accounting standard related to the consolidation of variable interest entities ( VIE ). The standard requires, among other things, a qualitative rather than quantitative analysis to determine the primary beneficiary ( PB ) of the VIE, continuous assessments of whether the entity is the PB of the VIE, and enhanced disclosures about involvement with VIEs. This standard was effective for the Company January 1, 2010 and is applicable to all entities with which the enterprise has involvement, regardless of when that involvement arose. The adoption of the new standard did not have an impact on the Company's consolidated financial statements.

In February 2010, the FASB issued ASU 2010-10, which addresses the application of the amendments to VIE consolidation described above by reporting entities in the asset management industry by deferring the effective date of the standard's new recognition and measurement requirements for certain investment funds. However, the standard's new disclosure requirements will continue to apply to all entities. ASU 2010-10 was effective for the Company January 1, 2010. The adoption of this standard led to the deferral of the application of the updated consolidation guidance in ASC 810 to certain of the Company's investment funds within the scope of ASU 2010-10.

*Fair Value Measurements*

In January 2010, the FASB issued ASU No. 2010-06, Improving Disclosures about Fair Value Measurements, ( ASU 2010-06 ) amending FASB Accounting Standards Codification Topic 820, Fair Value Measurements and Disclosures ( ASC 820 ). The amended guidance requires entities to disclose additional information regarding assets and liabilities that are transferred between levels of the fair value hierarchy and to disclose information in the Level III rollforward about purchases, sales, issuances and settlements on a gross basis. ASU 2010-06 also further clarifies existing guidance pertaining to the level of disaggregation at which fair value disclosures should be made and the requirements to disclose information about the valuation techniques and inputs used in estimating Level II and Level III fair value measurements. The guidance in ASU 2010-06 was effective for the Company January 1, 2010, except for the requirement to separately disclose purchases, sales, issuances, and settlements on a gross basis in the Level III rollforward, which becomes effective for fiscal years (and for interim periods within those fiscal years) beginning after December 15, 2010. While the adoption of ASU 2010-06 did not change accounting requirements, it did impact the Company's disclosures about fair value measurements.

**Note 4** *Acquisition of Advisory Research Holdings, Inc.*

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

The acquisition was accounted for under the acquisition method of accounting in accordance with ASC 805, Business Combinations. Accordingly, goodwill was measured as the excess of the acquisition-date fair value of the consideration transferred over the amount of acquisition-date identifiable assets acquired net of assumed liabilities. The Company recorded \$152.3 million of goodwill as an asset in the consolidated statement of financial condition, which is expected to be deductible for tax purposes and has been allocated to the Company's Asset Management segment. In management's opinion, the goodwill represents the reputation and expertise of ARI in the asset management business.

Identifiable intangible assets purchased by the Company consisted of customer relationships and the ARI trade name with acquisition-date fair values of \$52.2 million and \$2.9 million, respectively. Acquisition costs of \$1.5 million

were incurred in the fourth quarter of 2009 and \$96,000 of acquisition costs were incurred in the nine months ended September 30, 2010, and are included in outside services on the consolidated statement of operations.

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

*(Dollars in thousands)*

**Assets:**

Cash and cash equivalents	\$ 2,008
Other receivables	8,861
Fixed assets	377
Goodwill	152,282
Intangible assets	55,059
Other assets	369
 Total assets acquired	 218,956

**Liabilities:**

Accrued compensation	149
Other liabilities and accrued expenses	6,726
 Total liabilities assumed	 6,875

Net assets acquired	\$ 212,081
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ARI's results of operations have been included in the consolidated Company's financial statements prospectively beginning on the date of acquisition. Since the date of acquisition, ARI had net revenues of \$28.3 million and net income of \$6.3 million. The following unaudited pro forma financial data assumes the acquisition had occurred at the beginning of each period presented. Pro forma results have been prepared by adjusting the consolidated Company's historical results to include ARI's results of operations adjusted for the following changes: depreciation and amortization expenses were adjusted as a result of acquisition-date fair value adjustments to fixed assets, intangible assets, deferred acquisition costs and lease obligations; interest expense was adjusted for revised debt structures; and the income tax effect of applying the Company's statutory tax rates to ARI's results. The consolidated Company's unaudited pro forma information presented does not necessarily reflect the results of operations that would have resulted had the acquisition been completed at the beginning of the applicable periods presented, nor does it indicate the results of operations in future periods.

<i>(Dollars in thousands)</i>	<b>Three Months</b>		<b>Nine Months Ended September</b>	
	<b>Ended September</b>		<b>Ended September</b>	
	<b>30,</b>		<b>30,</b>	
	<b>2009</b>		<b>2010</b>	<b>2009</b>
Net revenues	\$ 129,123		\$ 361,748	\$ 361,747
Net income	\$ 10,880		\$ 16,689	\$ 21,889



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

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

<i>(Dollars in thousands)</i>	<b>September 30, 2010</b>	December 31, 2009
Financial instruments and other inventory positions owned:		
Corporate securities:		
Equity securities	\$ 31,502	\$ 3,070
Convertible securities	57,268	75,295
Fixed income securities	132,009	112,825
Municipal securities:		
Taxable securities	232,133	151,144
Tax-exempt securities	142,983	147,809
Short-term securities	66,500	25,204
Asset-backed securities	68,272	70,425
U.S. government agency securities	165,104	125,576
U.S. government securities	5,567	70,111
Derivative contracts	38,007	18,530
	<b>\$ 939,345</b>	<b>\$ 799,989</b>
Financial instruments and other inventory positions sold, but not yet purchased:		
Corporate securities:		
Equity securities	\$ 30,692	\$ 26,474
Convertible securities	5,748	3,678
Fixed income securities	29,287	122,339
Asset-backed securities	13,899	8,937
U.S. government agency securities	62,970	67,001
U.S. government securities	248,723	102,911
Derivative contracts	9,459	4,455
	<b>\$ 400,778</b>	<b>\$ 335,795</b>

At September 30, 2010, and December 31, 2009, financial instruments and other inventory positions owned in the amount of \$415.5 million and \$137.4 million, respectively, had been pledged as collateral for the Company's repurchase agreements, secured borrowings and securities loaned.

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

**Derivative Contract Financial Instruments**

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

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

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

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

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

<i>(Dollars in thousands)</i>		<b>September 30,</b>	December 31,
<b>Transaction Type or Hedged Security</b>	<b>Derivative Category</b>	<b>2010</b>	2009
Customer matched-book	Interest rate derivative contract	<b>\$ 6,470,899</b>	\$ 6,795,186
Trading securities	Interest rate derivative contract	<b>202,250</b>	234,500
Trading securities	Credit default swap index contract	<b>140,000</b>	-
Firm investments	Foreign currency forward contract	<b>4,891</b>	-
		<b>\$ 6,818,040</b>	\$ 7,029,686

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

<i>(Dollars in thousands)</i>		<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
<b>Derivative Category</b>	<b>Operations Category</b>	<b>Sept. 30, 2010</b>	Sept. 30, 2009	<b>Sept. 30, 2010</b>	Sept. 30, 2009
Interest rate derivative contract	Investment banking	<b>\$ 6,434</b>	\$ (668)	<b>\$ 3,566</b>	\$ 5,305
Interest rate derivative contract	Institutional brokerage	<b>(2,299)</b>	(6,606)	<b>(2,485)</b>	(997)
Credit default swap index contract	Institutional brokerage	<b>(3,492)</b>	-	<b>(419)</b>	-
Foreign currency forward contract	Other operating expenses	<b>(502)</b>	-	<b>12</b>	-
		<b>\$ 141</b>	\$ (7,274)	<b>\$ 674</b>	\$ 4,308

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

(1):

<i>(Dollars in thousands)</i>		<b>Asset Value at</b>		<b>Liability Value at</b>
<b>Derivative Category</b>	<b>Financial Condition Location</b>	<b>Sept. 30, 2010</b>	<b>Financial Condition Location</b>	<b>Sept. 30, 2010</b>
Interest rate derivative contract	Financial instruments and other inventory positions owned	\$ 576,711	Financial instruments and other inventory positions sold, but not yet purchased	\$ 540,532
Credit default swap index contract	Financial instruments and other inventory positions owned	402	Financial instruments and other inventory positions sold, but not yet purchased	225
Foreign currency forward contract	Financial instruments and other inventory positions owned	-	Financial instruments and other inventory positions sold, but not yet purchased	399
		<b>\$ 577,113</b>		<b>\$ 541,156</b>

(1) Amounts are disclosed at gross fair value in accordance with the requirement of ASC 815.

Depending upon the product and terms of the transaction, the fair value of the Company's derivative contracts can be observed or priced using models based on the net present value of estimated future cash flows. The inputs for the valuation models include contractual terms, market prices, yield curves, credit curves and measures of volatility. Derivatives are reported on a net basis by counterparty when legal right of offset exists and when applicable provisions are stated in master netting agreements. Cash collateral received or paid is netted on a counterparty basis, provided a legal right of offset exists.

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Credit risk associated with the Company's derivatives is the risk that a derivative counterparty will not perform in accordance with the terms of the applicable derivative contract. Credit exposure associated with the Company's derivatives is driven by uncollateralized market movements in the fair value of the contracts with counterparties and is monitored regularly by the Company's financial risk committee. The Company reflects counterparty credit risk in calculating derivative contract fair value. The majority of the Company's derivative contracts are substantially collateralized by its counterparties, who are major financial institutions. The Company has a limited number of counterparties who are not required to post collateral. Based on market movements, the uncollateralized amounts representing the fair value of the derivative contract can become material, exposing the Company to the credit risk of these counterparties. As of September 30, 2010, the Company had \$31.4 million of uncollateralized credit exposure with these counterparties (notional contract amount of \$268.6 million), including \$17.5 million of uncollateralized credit exposure with one counterparty.

**Note 6 *Fair Value of Financial Instruments***

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

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

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

**Cash Equivalents**

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

**Financial Instruments and Other Inventory Positions Owned**

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

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

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



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

*Tax-exempt municipal securities* Tax-exempt municipal securities are valued using recently executed observable trades or market price quotations and therefore are generally categorized as Level II. Certain illiquid tax-exempt municipal securities are categorized as Level III.

*Short-term municipal securities* Short-term municipal securities include auction rate securities, variable rate demand notes, and other short-term municipal securities. Auction rate securities were historically traded and valued as floating rate notes, priced at par due to the auction mechanism. Beginning in 2008, the auction rate securities market experienced dislocation due to uncertainties in the credit markets. During 2009, certain areas of the auction rate market began to function; however, lower credit issuers remain illiquid. Accordingly, auction rate securities with limited liquidity were valued based upon internal models with observable inputs such as specific security contractual terms and yield curves and unobservable inputs such as liquidity discounts. These instruments were categorized as Level III. Variable rate demand notes and other short-term municipal securities are valued using recently executed observable trades or market price quotations and therefore are generally categorized as Level II.

*Asset-backed securities* Asset-backed securities are valued using observable trades, when available. Certain asset-backed securities are valued using models where inputs to the model are directly observable in the market, or can be derived principally from or corroborated by observable market data. These asset-backed securities are categorized as Level II. Other asset-backed securities, which are principally collateralized by aircraft and have experienced low volumes of executed transactions, result in less observable transaction data. These assets are valued using cash flow models that utilize unobservable inputs including airplane lease rates, aircraft valuation, trust costs, and other factors impacting security cash flows. The Company's aircraft asset-backed securities had a weighted average yield of 6.2% at September 30, 2010. The Company also has a minimal amount of asset-backed securities collateralized by residential mortgages. These are valued using cash flow models that utilize unobservable inputs including credit default rates ranging from 3-10%, prepayment rates ranging from 4-8% of CPR, severity ranging from 50-80% and valuation yields ranging from 6-9%. As judgment is used to determine the range of these inputs, these asset-backed securities are categorized as Level III.

*U.S. government agency securities* U.S. government agency securities include agency debt bonds and mortgage bonds. Agency debt bonds are valued by using either direct price quotes or price quotes for comparable bond securities and thus, are categorized as Level II. Mortgage bonds include mortgage bonds, mortgage pass-through securities and agency collateralized mortgage-obligations ( CMO ). Mortgage pass-through securities and CMO securities are valued using recently executed observable trades or other observable inputs, such as prepayment speeds and therefore, generally are categorized as Level II. Mortgage bonds are valued using observable market inputs, such as market yields ranging from 95-165 basis point spreads to treasury securities, or models based upon prepayment expectations ranging from 222-454 Public Securities Association ( PSA ) prepayment levels. These securities are categorized as Level II.

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

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

**Investments**

The Company's investments valued at fair value include investments in public companies, warrants of public or private companies and investments in certain illiquid municipal bonds. Exchange traded direct equity investments in public

companies are valued based on quoted prices on active markets and reported in Level I. Company-owned warrants, which have a cashless exercise option, are valued based upon the Black-Scholes option-pricing model that uses discount rates and stock volatility factors of comparable companies as inputs. These inputs are subject to management judgment to account for differences between the measured investment and comparable companies. Company-owned warrants are reported as Level III assets. Investments in certain illiquid municipal bonds



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that the Company is holding for investment are measured using valuation techniques involving significant management judgment and are reported as Level III assets.

The following table summarizes the valuation of our financial instruments by pricing observability levels defined in ASC 820 as of September 30, 2010:

<i>(Dollars in thousands)</i>	Level I	Level II	Level III	Counterparty Collateral Netting (1)	Total
<b>Assets:</b>					
Financial instruments and other inventory positions owned:					
Corporate securities:					
Equity securities	\$ 10,622	\$ 18,600	\$ 2,280	\$ -	\$ 31,502
Convertible securities	-	47,379	9,889	-	57,268
Fixed income securities	-	127,834	4,175	-	132,009
Municipal securities:					
Taxable securities	-	232,133	-	-	232,133
Tax-exempt securities	-	139,630	3,353	-	142,983
Short-term securities	-	66,225	275	-	66,500
Asset-backed securities	-	41,951	26,321	-	68,272
U.S. government agency securities	-	165,104	-	-	165,104
U.S. government securities	5,567	-	-	-	5,567
Derivative instruments	-	75,606	-	(37,599)	38,007
Total financial instruments and other inventory positions owned:	16,189	914,462	46,293	(37,599)	939,345
Cash equivalents	10,652	-	-	-	10,652
Investments	2,582	-	3,147	-	5,729
Total assets	\$ 29,423	\$ 914,462	\$ 49,440	\$ (37,599)	\$ 955,726
<b>Liabilities:</b>					
Financial instruments and other inventory positions sold, but not yet purchased:					
Corporate securities:					
Equity securities	\$ 30,692	\$ -	\$ -	\$ -	\$ 30,692
Convertible securities	-	5,748	-	-	5,748
Fixed income securities	-	27,207	2,080	-	29,287
Asset-backed securities	-	10,759	3,140	-	13,899
U.S. government agency securities	-	62,970	-	-	62,970
U.S. government securities	248,723	-	-	-	248,723
Derivative instruments	-	39,649	-	(30,190)	9,459
Total financial instruments and other inventory positions sold, but	279,415	146,333	5,220	(30,190)	400,778

not yet purchased:

Investments	-	-	1	-	1
Total liabilities	\$ 279,415	\$ 146,333	\$ 5,221	\$ (30,190)	\$ 400,779

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

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The following table summarizes the valuation of our financial instruments by pricing observability levels defined in ASC 820 as of December 31, 2009:

<i>(Dollars in thousands)</i>	<b>Level I</b>	<b>Level II</b>	<b>Level III</b>	<b>Counterparty Collateral Netting (1)</b>	<b>Total</b>
<b>Assets:</b>					
Financial instruments and other inventory positions owned:					
Corporate securities:					
Equity securities	\$ 3,070	\$ -	\$ -	\$ -	\$ 3,070
Convertible securities	-	75,295	-	-	75,295
Fixed income securities	-	112,825	-	-	112,825
Municipal securities:					
Taxable securities	-	151,144	-	-	151,144
Tax-exempt securities	-	147,809	-	-	147,809
Short-term securities	-	7,379	17,825	-	25,204
Asset-backed securities	-	46,186	24,239	-	70,425
U.S. government agency securities	-	125,576	-	-	125,576
U.S. government securities	70,111	-	-	-	70,111
Derivative instruments	-	54,391	-	(35,861)	18,530
Total financial instruments and other inventory positions owned:	73,181	720,605	42,064	(35,861)	799,989
Cash equivalents	13,352	-	-	-	13,352
Investments	1,139	-	2,240	-	3,379
Total assets	\$ 87,672	\$ 720,605	\$ 44,304	\$ (35,861)	\$ 816,720
<b>Liabilities:</b>					
Financial instruments and other inventory positions sold, but not yet purchased:					
Corporate securities:					
Equity securities	\$ 26,474	\$ -	\$ -	\$ -	\$ 26,474
Convertible securities	-	3,678	-	-	3,678
Fixed income securities	-	114,568	7,771	-	122,339
Asset-backed securities	-	6,783	2,154	-	8,937
U.S. government agency securities	-	67,001	-	-	67,001
U.S. government securities	102,911	-	-	-	102,911
Derivative instruments	-	19,294	-	(14,839)	4,455
Total financial instruments and other inventory positions sold, but not yet purchased:	129,385	211,324	9,925	(14,839)	335,795

Investments	-	-	19	-	19
Total liabilities	\$ 129,385	\$ 211,324	\$ 9,944	\$ (14,839)	\$ 335,814

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

The Company's Level III assets were \$49.4 million and \$44.3 million, or 5.2 percent and 5.4 percent of financial instruments measured at fair value as of September 30, 2010, and December 31, 2009, respectively. Transfers between levels are recognized at the beginning of the reporting period. There were \$13.2 million of net transfers of financial assets from Level II to Level III during the nine months ended September 30, 2010 related primarily to fixed income securities and asset-backed securities for which no recent trade activity was observed and valuation inputs became unobservable. There were \$1.8 million of net transfers of financial liabilities from Level III to Level II for the nine months ended September 30, 2010 related to asset-backed securities for which market trades were observed that provided transparency into the valuation of these liabilities, offset in part by fixed income securities for which valuation inputs became unobservable. Transfers between Level I and Level II were not material for the nine months ended September 30, 2010. At September 30, 2010, the Company's Level II and Level III equities securities increased due to the purchase of non-exchange traded equities securities. Historically, the Company did not hold this type of security for trading purposes.

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The following tables summarize the changes in fair value associated with Level III financial instruments during the nine months ended September 30, 2010 and 2009:

<i>(Dollars in thousands)</i>	<b>Balance at December 31, 2009</b>	Purchases/ (sales), net	Net transfers in/(out)	Realized gains/ (losses) (1)	Unrealized gains/ (losses) (1)	<b>Balance at September 30, 2010</b>
<b>Assets:</b>						
Financial instruments and other inventory positions owned:						
Corporate securities:						
Equity securities	\$ -	\$ 2,411	\$ -	\$ 9	\$ (140)	\$ 2,280
Convertible securities	-	7,103	(86)	1,753	1,119	9,889
Fixed income securities	-	(2,326)	6,102	575	(176)	4,175
Municipal securities:						
Tax-exempt securities	-	3,352	-	-	1	3,353
Short-term securities	17,825	(15,389)	-	(2,291)	130	275
Asset-backed securities	24,239	(9,678)	7,232	4,621	(93)	26,321
Total financial instruments and other inventory positions owned:	42,064	(14,527)	13,248	4,667	841	46,293
Investments	2,240	(365)	-	219	1,053	3,147
Total assets	\$ 44,304	\$ (14,892)	\$ 13,248	\$ 4,886	\$ 1,894	\$ 49,440
<b>Liabilities:</b>						
Financial instruments and other inventory positions sold, but not yet purchased:						
Corporate securities:						
Fixed income securities	\$ 7,771	\$ (7,960)	\$ 2,053	\$ 7	\$ 209	\$ 2,080
Asset-backed securities	2,154	4,768	(3,872)	(95)	185	3,140
Total financial instruments and other inventory positions sold, but not yet purchased:	9,925	(3,192)	(1,819)	(88)	394	5,220
Investments	19	(97)	-	(48)	127	1
Total liabilities	\$ 9,944	\$ (3,289)	\$ (1,819)	\$ (136)	\$ 521	\$ 5,221

<i>(Dollars in thousands)</i>	<b>Balance at December 31, 2008</b>	Purchases/ (sales), net	Net transfers in/(out)	Realized gains/ (losses) (1)	Unrealized gains/ (losses) (1)	<b>Balance at September 30, 2009</b>
<b>Assets:</b>						
Financial instruments and other inventory positions owned:						
Corporate securities:						
Convertible securities	\$ 3,671	\$ -	\$ (3,671)	\$ -	\$ -	\$ -
Fixed income securities	2,138	4,451	610	(27)	305	7,477
Municipal securities:						
Short-term securities	17,750	175	(100)	-	(527)	17,298
Asset-backed securities	22,560	19,041	12,877	3,025	1,298	58,801
U.S. government agency securities	6	(1)	(5)	-	-	-
Total financial instruments and other inventory positions owned:	46,125	23,666	9,711	2,998	1,076	83,576
Investments	433	(9)	27	-	1,658	2,109
Total assets	\$ 46,558	\$ 23,657	\$ 9,738	\$ 2,998	\$ 2,734	\$ 85,685
<b>Liabilities:</b>						
Financial instruments and other inventory positions sold, but not yet purchased:						
Corporate securities:						
Asset-backed securities	\$ -	\$ 1,341	\$ (268)	\$ 39	\$ (32)	\$ 1,080
Total financial instruments and other inventory positions sold, but not yet purchased:	-	1,341	(268)	39	(32)	1,080
Investments	366	-	-	-	(347)	19
Total liabilities	\$ 366	\$ 1,341	\$ (268)	\$ 39	\$ (379)	\$ 1,099
<i>(1) Realized and unrealized gains/(losses) related to financial instruments, with the</i>						

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

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Some of the Company's financial instruments are not measured at fair value on a recurring basis, but are recorded at amounts that approximate fair value due to their liquid or short-term nature. Such financial assets and financial liabilities include cash, securities either purchased or sold under agreements to resell, receivables and payables either from or to customers and brokers, dealers and clearing organizations and short-term financings.

**Note 7 Variable Interest Entities**

In the normal course of business, the Company periodically creates or transacts with entities that are investment vehicles organized as limited partnerships or limited liability companies. These entities were established for the purpose of investing in equity and debt securities of public and private investments and were initially financed through the capital commitments of the members. The Company has investments in and/or acts as the managing partner or member of these entities. In certain instances, the Company provides management and investment advisory services for which it earns fees generally based upon the market value of assets under management and may include incentive fees based upon performance. At September 30, 2010, the Company's aggregate net investment in these investment vehicles totaled \$17.8 million. The Company's remaining capital commitments to these entities was \$2.7 million at September 30, 2010.

Variable interest entities ( VIEs ) are entities in which equity investors lack the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities. The determination as to whether an entity is a VIE is based on the amount and nature of the members' equity investment in the entity. The Company also considers other characteristics such as the power through voting rights or similar rights to direct the activities of an entity that most significantly impact the entity's economic performance. For those entities that meet the deferral provisions defined by ASU 2010-10, the Company considers characteristics such as the ability to influence the decision making about the entity's activities and how the entity is financed. The Company has identified certain of the entities described above as VIEs. These VIEs had net assets approximating \$787.7 million at September 30, 2010. The Company's exposure to loss from these VIEs is \$5.3 million, which is the carrying value of its capital contributions recorded in other assets on the consolidated statement of financial condition at September 30, 2010. The Company had no liabilities related to these VIEs at September 30, 2010.

The Company is required to consolidate all VIEs for which it is considered to be the primary beneficiary. The determination as to whether the Company is considered to be the primary beneficiary is based on whether the Company has both the power to direct the activities of the VIE that most significantly impact the entity's economic performance and the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. For those entities that meet the deferral provisions defined by ASU 2010-10, the determination as to whether the Company is considered to be the primary beneficiary is based on whether the Company will absorb a majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both. It was determined the Company is not the primary beneficiary of these VIEs and accordingly does not consolidate them. The Company has not provided financial or other support to these VIEs that it was not previously contractually required to provide as of September 30, 2010.

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

Amounts receivable from brokers, dealers and clearing organizations at September 30, 2010 and December 31, 2009 included:

	September 30, 2010	December 31, 2009
<i>(Dollars in thousands)</i>		
Receivable arising from unsettled securities transactions, net	\$ -	\$ 35,324
Deposits paid for securities borrowed	75,892	166,399
Receivable from clearing organizations	16,003	21,388
Deposits with clearing organizations	32,375	18,010
Securities failed to deliver	14,822	13,102
Other	6,860	7,838



\$ 145,952 \$ 262,061

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Amounts payable to brokers, dealers and clearing organizations at September 30, 2010 and December 31, 2009 included:

<i>(Dollars in thousands)</i>	<b>September 30, 2010</b>	December 31, 2009
Payable arising from unsettled securities transactions, net	\$ 45,724	\$ -
Deposits received for securities loaned	-	25,988
Payable to clearing organizations	11,259	11,975
Securities failed to receive	7,994	22,118
Other	10,331	11,737
	<b>\$ 75,308</b>	<b>\$ 71,818</b>

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

**Note 9 Collateralized Securities Transactions**

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

In the normal course of business, the Company obtains securities purchased under agreements to resell, securities borrowed and margin agreements on terms that permit it to repledge or resell the securities to others. The Company obtained securities with a fair value of approximately \$354.1 million and \$332.3 million at September 30, 2010 and December 31, 2009, respectively, of which \$324.5 million and \$144.5 million, respectively, has been either pledged or otherwise transferred to others in connection with the Company's financing activities or to satisfy its commitments under financial instruments and other inventory positions sold, but not yet purchased.

At September 30, 2010, the Company's securities sold under agreements to repurchase (Repurchase Liabilities) exceeded 10 percent of total assets.

The following is a summary of Repurchase Liabilities and the fair market value of related collateral pledged as of September 30, 2010:

<i>(Dollars in thousands)</i>	<b>Fair Market Value</b>	<b>Repurchase Liabilities</b>	<b>Interest Rates</b>
<b>Overnight maturities:</b>			
Corporate securities:			
Fixed income securities	\$ 15,213	\$ 12,349	1.23%
Municipal securities:			
Taxable securities	126,519	103,810	1.23%
Tax-exempt securities	23,169	19,118	1.23%
Short-term securities	17,717	14,723	1.23%
<b>On demand maturities:</b>			
Corporate securities:			
Fixed income securities	78,789	73,422	0.65-0.95%

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Asset-backed securities	6,564	5,850	0.45%
U.S. government agency securities	91,173	84,105	0.40-0.45%
	\$ 359,144	\$ 313,377	

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Other assets include investments in public companies valued at fair value, equity and debt investments in private companies valued at cost, investments in private equity partnerships that are valued using the equity method of accounting, net deferred tax assets and prepaid expenses.

Other assets at September 30, 2010 and December 31, 2009 included:

<i>(Dollars in thousands)</i>	<b>September 30, 2010</b>	<b>December 31, 2009</b>
Investments at fair value	\$ 5,729	\$ 3,379
Investments at cost	27,469	33,687
Investments valued using equity method	17,146	14,825
Net deferred income tax assets	66,673	80,058
Prepaid expenses	5,370	5,840
Other	2,239	1,846
<b>Total other assets</b>	<b>\$ 124,626</b>	<b>\$ 139,635</b>

At September 30, 2010, the estimated fair market value of investments carried at cost totaled \$34.5 million. The estimated fair value of investments carried at cost is based upon valuation models and other valuation techniques, which require a large degree of management judgment.

**Note 11 Goodwill and Intangible Assets**

The following table presents the changes in the carrying value of goodwill and intangible assets for the nine months ended September 30, 2010:

<i>(Dollars in thousands)</i>	<b>Capital Markets</b>	<b>Asset Management</b>	<b>Total</b>
<b>Goodwill</b>			
<b>Balance at December 31, 2009</b>	<b>\$ 120,298</b>	<b>\$ 44,327</b>	<b>\$ 164,625</b>
Goodwill recorded in purchase of ARI	-	152,282	152,282
FAMCO earn-out payment adjustment	-	27	27
<b>Balance at September 30, 2010</b>	<b>\$ 120,298</b>	<b>\$ 196,636</b>	<b>\$ 316,934</b>
<b>Intangible assets</b>			
<b>Balance at December 31, 2009</b>	<b>\$ -</b>	<b>\$ 12,067</b>	<b>\$ 12,067</b>
Intangible assets acquired in purchase of ARI	-	55,059	55,059
Amortization of intangible assets	-	(5,363)	(5,363)
<b>Balance at September 30, 2010</b>	<b>\$ -</b>	<b>\$ 61,763</b>	<b>\$ 61,763</b>

The addition of goodwill and intangible assets during the nine months ended September 30, 2010 primarily related to the acquisition of ARI, as discussed in Note 4. Management identified \$55.1 million of intangible assets, consisting primarily of the customer relationships (\$52.2 million), which are being amortized over a weighted average life of 10 years, and the ARI trade name (\$2.9 million), which has an indefinite life and will not be amortized.

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

*(Dollars in thousands)*

**Years Ended December 31,**

Remainder of 2010	\$ 2,184
2011	8,276
2012	7,668
2013	7,325
2014	6,938
Thereafter	26,512
<b>Total</b>	<b>\$ 58,903</b>

**Note 12 Short-Term Financing**

The following is a summary of short-term financing and the weighted average interest rates on borrowings as of September 30, 2010 and December 31, 2009:

	<b>Outstanding Balance</b>		<b>Weighted Average Interest Rate</b>	
	<b>September 30, 2010</b>	<b>December 31, 2009</b>	<b>September 30, 2010</b>	<b>December 31, 2009</b>
<i>(Dollars in thousands)</i>				
Bank lines (secured)	<b>\$ 50,000</b>	\$ 68,000	<b>1.50%</b>	1.35%
Commercial paper (secured)	<b>57,023</b>	22,079	<b>1.29%</b>	1.25%
<b>Total short-term financing</b>	<b>\$ 107,023</b>	\$ 90,079		

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

The Company's committed short-term bank line financing at September 30, 2010, consisted of a \$250 million committed revolving credit facility with U.S. Bank, N.A. Advances under this facility are secured by certain marketable securities. The unpaid principal amount of all advances under this facility will be due on December 31, 2010. The Company pays a nonrefundable commitment fee on the unused portion of the facility on a quarterly basis.

The Company's uncommitted secured lines at September 30, 2010, totaled \$275 million with three banks and are dependent on having appropriate collateral, as determined by the bank agreement, to secure an advance under the line. The availability of the Company's uncommitted lines are subject to approval by the individual banks each time an advance is requested and may be denied. In addition, the Company has established arrangements to obtain financing by another broker dealer at the end of each business day related specifically to its convertible inventory.

In 2009, the Company initiated a secured commercial paper program to provide another funding source for its securities inventory. The senior secured commercial paper notes (Series A CP Notes) are secured by the Company's securities inventory with maturities on the Series A CP Notes ranging from twenty-seven days to ninety-two days from the date of issuance. The Series A CP Notes are interest-bearing or sold at a discount to par with an interest rate based on the London Interbank Offered Rate (LIBOR) plus an applicable margin.

As part of these short-term financing arrangements, the Company is subject to various financial and operational covenants. At September 30, 2010, the Company was in compliance with all covenants related to its financing facilities.



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**Note 13** *Variable Rate Senior Notes*

On December 31, 2009, the Company issued unsecured variable rate senior notes ( Notes ) in the amount of \$120 million. The initial holders of the Notes are certain entities advised by PIMCO. Interest is based on an annual rate equal to LIBOR plus 4.10%, adjustable and payable quarterly. The weighted average interest rate for the nine months ended September 30, 2010, was 4.46%. The proceeds from the Notes were used to fund a portion of the ARI acquisition discussed further in Note 4 to our consolidated financial statements. The unpaid principal amount of the Notes will be due on December 31, 2010.

**Note 14** *Legal Contingencies*

The Company has been named as a defendant in various legal actions, including complaints and litigation and arbitration claims, arising from its business activities. Such actions include claims related to securities brokerage and investment banking activities, and certain class actions that primarily allege violations of securities laws and seek unspecified damages, which could be substantial. Also, the Company is involved from time to time in investigations and proceedings by governmental agencies and self-regulatory organizations. The Company has established reserves for potential losses that are probable and reasonably estimable that may result from pending and potential legal actions, investigations and regulatory proceedings.

Given uncertainties regarding the timing, scope, volume and outcome of pending and potential legal actions, investigations and regulatory proceedings and other factors, the amounts of reserves 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 taking into account its established reserves, that pending legal actions, investigations and regulatory proceedings will be resolved with no material adverse effect on the consolidated financial condition of the Company. However, if during any period a potential adverse contingency should become probable or resolved for an amount in excess of the established reserves, the results of operations in that period could be materially adversely affected.

The Company is a defendant in two potentially material legal proceedings as described below.

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

Piper Jaffray has been named as a defendant in a complaint filed in federal district court in Des Moines, Iowa on June 30, 2006. The claim arises in connection with two municipal financings completed by Union County in 1997 and 1998 aggregating approximately \$6.0 million, for which Piper Jaffray acted as underwriter, and alleges breach of fiduciary duty, breach of contract, negligent misrepresentation, negligence and fraud. On September 29, 2010, Piper Jaffray's motion for summary judgment was granted in part (with respect to the breach of contract claim) and denied in part (as to the other claims). A trial is currently scheduled to commence on December 6, 2010. The Company believes that it has meritorious defenses to the action and intends to vigorously defend against it. The Company is not able to predict with certainty the outcome of this matter, nor the amount, if any, of an eventual settlement or judgment. The Company believes an estimate of the range of loss that is reasonably possible is between \$0 to \$6.0 million as of September 30, 2010.

**Table of Contents****Note 15 Restructuring**

On August 11, 2006, the Company completed the sale of its Private Client Services ( PCS ) branch network and certain related assets to UBS Financial Services, Inc., a subsidiary of UBS AG ( UBS ), thereby exiting the PCS business. In connection with the sale of the Company s PCS branch network, the Company initiated a plan to significantly restructure the Company s support infrastructure. All restructuring costs related to the sale of the PCS branch network were included within discontinued operations. The following table presents a summary of activity with respect to the restructuring-related liabilities included in other liabilities and accrued expenses on the consolidated statements of financial condition related to the sale of the PCS branch network:

<i>(Dollars in thousands)</i>	<b>PCS Restructuring</b>
<b>Balance at December 31, 2009</b>	<b>\$ 7,565</b>
Recovery of provision charged to operations	(118)
Cash outlays	(2,019)
Non-cash write-downs	(17)
<b>Balance at September 30, 2010</b>	<b>\$ 5,411</b>

In the third quarter of 2010, the Company incurred pre-tax restructuring-related expenses of \$1.3 million. The expense resulted from headcount reductions in the Capital Markets segment, the majority of which were related to its European operations.

In October 2010, the Company announced plans to restructure its European operations. See Note 23 for further discussion.

**Note 16 Shareholders Equity****Share Repurchase Program**

In the second quarter of 2008, the Company s board of directors authorized the repurchase of up to \$100 million in common shares through June 30, 2010. During the six months ended June 30, 2010, the Company repurchased 893,050 shares of the Company s common stock at an average price of \$33.57 per share for an aggregate purchase price of \$30.0 million related to this authorization. The share repurchase authorization expired as of June 30, 2010.

In the third quarter of 2010, the Company s board of directors authorized the repurchase of up to \$75 million in common shares through September 30, 2012. During the three months ended September 30, 2010, the Company repurchased 540,532 shares of the Company s common stock at an average price of \$28.16 per share for an aggregate purchase price of \$15.2 million related to this authorization. The Company has \$59.8 million remaining under this authorization.

**Issuance of Shares**

In March 2010, the Company issued 881,846 restricted shares and 11,259 unrestricted shares in conjunction with the acquisition of ARI as described in Note 4. The restricted shares issued in conjunction with the acquisition of ARI vest ratably over four years in equal installments beginning on March 1, 2011, and ending on March 1, 2014. These restricted shares provide for continued vesting after termination, so long as the employee does not violate certain non-solicitation restrictions.

During the nine months ended September 30, 2010, the Company issued 81,696 common shares out of treasury stock in fulfillment of \$3.6 million in obligations under the Piper Jaffray Companies Retirement Plan and issued 404,115 common shares out of treasury stock as a result of vesting and exercise transactions under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan.

**Note 17 Earnings Per Share**

The Company calculates earnings per share using the two-class method. Basic earnings per common share is computed by dividing net income applicable to common shareholders by the weighted average number of common shares outstanding for the period. Net income applicable to common shareholders represents net income reduced by the allocation of earnings to participating securities. All of the Company s outstanding restricted shares are deemed to



be participating securities because they are eligible to share in the

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profits (e.g. receive dividends) of the Company. Losses are not allocated to participating securities. Diluted earnings per common share is calculated by adjusting the weighted average outstanding shares to assume conversion of all potentially dilutive stock options. The computation of earnings per share is as follows:

<i>(Amounts in thousands, except per share data)</i>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2010</b>	2009	<b>2010</b>	2009
Net income	\$ <b>7,054</b>	\$ 9,266	\$ <b>14,942</b>	\$ 18,117
Earnings allocated to participating securities (2)	<b>(1,639)</b>	(1,690)	<b>(3,271)</b>	(3,254)
Net income applicable to common shareholders (1)	\$ <b>5,415</b>	\$ 7,576	\$ <b>11,671</b>	\$ 14,863
Shares for basic and diluted calculations:				
Average shares used in basic computation	<b>15,035</b>	16,031	<b>15,588</b>	16,001
Stock options	<b>3</b>	100	<b>38</b>	38
Restricted stock (2)	-	-	-	-
Average shares used in diluted computation	<b>15,038</b>	16,131	<b>15,626</b>	16,039
Earnings per share:				
Basic	\$ <b>0.36</b>	\$ 0.47	\$ <b>0.75</b>	\$ 0.93
Diluted	\$ <b>0.36</b>	\$ 0.47	\$ <b>0.75</b>	\$ 0.93
<i>(1) Net income applicable to common shareholders for diluted and basic EPS may differ under the two-class method as a result of adding the effect of the assumed exercise of stock options to dilutive shares outstanding, which alters the ratio used to allocate earnings to common shareholders and participating securities for</i>				

*purposes of calculating diluted and basic EPS.*

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

The anti-dilutive effects from stock options were immaterial for the periods ended September 30, 2010 and 2009.

**Note 18 Employee Benefit Plans**

Certain employees participated in the Piper Jaffray Companies Non-Qualified Retirement Plan ( the Non-Qualified Plan ), an unfunded, non-qualified cash balance pension plan. The Company froze the plan effective January 1, 2004, thereby eliminating future benefits related to pay increases and excluding new participants from the plan. Effective December 31, 2009, the Company resolved to terminate the Non-Qualified Plan through lump sum cash distributions to all participants. These lump-sum cash payments, totaling \$10.4 million, were based on the December 31, 2009 actuarial valuation of the Non-Qualified Plan and were distributed on March 15, 2010. In 2010, the Company recognized settlement expense of \$0.2 million in compensation and benefits expense on the consolidated statement of operations related to the settlement of all Non-Qualified Plan liabilities.

**Note 19 Stock-Based Compensation**

The Company accounts for equity awards in accordance with FASB Accounting Standards Codification Topic 718, Compensation Stock Compensation, ( ASC 718 ), which requires all share-based payments to employees, including grants of employee stock options, to be recognized in the statements of operations at grant date fair value over the service period of the award, net of estimated forfeitures.

The Company's primary stock-based compensation plan, Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan, (the Incentive Plan ), permits the grant of equity awards, including restricted stock and non-qualified stock options, to the Company's employees and directors for up to 7.0 million shares of common stock. The Company periodically grants shares of restricted stock to employees and grants shares of Piper Jaffray Companies common stock to its non-employee directors. The Company also previously granted options to purchase Piper Jaffray Companies common stock to employees and 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 under the Incentive Plan have the following vesting periods: approximately 79 percent of the awards have three-year cliff vesting periods, approximately 11 percent of the awards vest ratably from 2011 through 2013 on the annual grant date anniversary, and approximately 10 percent of the awards cliff vest upon meeting a specific performance-based metric prior to May 2013. The director awards are fully vested upon grant. 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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Employee and director stock options were expensed by the Company on a straight-line basis over the required service period, based on the estimated fair value of the award on the date of grant using a Black-Scholes option-pricing model. The maximum term of the stock options granted to employees and directors is ten years. The Company has not granted stock options since 2008.

Restricted stock grants are valued at the market price of the Company's common stock on the date of grant. Restricted stock grants are amortized over the 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. These post-termination restrictions do not meet the criteria for an in-substance service condition as defined by ASC 718. Accordingly, such restricted stock grants are fully expensed in the period in which those awards are deemed to be earned, which is generally the calendar year preceding the February grant date each year. For example, the Company recognized compensation expense during fiscal 2009 for its annual February 2010 restricted stock grants.

In accordance with ASC 718, if any equity award is forfeited as a result of violating the post-termination restrictions, the lower of the fair value of the award at grant date or the fair value of the award at the date of forfeiture is recorded within the consolidated statements of operations as other income. The Company recorded \$0.7 million and \$4.5 million of forfeitures through other income for the three and nine months ended September 30, 2010, respectively. The amount the Company recorded to other income from cancellations for the three and nine months ended September 30, 2009 were not significant.

Performance-based restricted stock awards granted in 2008 and 2009 were valued at the market price of the Company's common stock on the date of grant. The restricted shares are amortized on a straight-line basis over the period the Company expects the performance target to be met. The performance condition must be met for the awards to vest and total compensation cost will be recognized only if the performance condition is satisfied. The probability that the performance condition will be achieved and that the awards will vest is reevaluated each reporting period with changes in actual or estimated outcomes accounted for using a cumulative effect adjustment. In the third quarter of 2010, the Company deemed it improbable that the performance condition related to the performance-based restricted stock grants would be met. As a result, the Company recorded a \$6.6 million cumulative effect compensation expense reversal in the third quarter of 2010.

In 2010, the Company established the 2010 Employment Inducement Award Plan (the "Inducement Plan") in conjunction with the acquisition of ARI. The Company granted \$7.0 million (158,801 shares) in restricted shares under the Inducement Plan to ARI employees upon closing of the transaction. These shares vest ratably over five years in equal installments beginning on March 1, 2011, and ending on March 1, 2015. The Company records compensation expense for this \$7.0 million restricted stock grant on a pro rata basis over the five year vesting period. Unvested shares granted under the Inducement Plan are cancelled upon the termination of employment by the award recipient.

The Company recorded compensation expense of \$0.8 million and \$11.6 million for the three months ended September 30, 2010 and 2009, respectively, and \$20.0 million and \$31.4 million for the nine months ended September 30, 2010 and 2009, respectively, related to employee restricted stock. The three and nine months ended September 30, 2010 included the \$6.6 million cumulative effect adjustment discussed above related to the performance-based restricted stock awards. The tax benefit related to the total compensation cost for stock-based compensation arrangements totaled \$0.3 million and \$4.5 million for the three months ended September 30, 2010 and 2009, respectively, and \$7.9 million and \$12.2 million for the nine months ended September 30, 2010 and 2009, respectively.

The following table summarizes the changes in the Company's non-vested restricted stock for the nine months ended September 30, 2010:

	<b>Non-Vested Restricted Stock</b>	<b>Weighted Average Grant Date Fair Value</b>
<b>December 31, 2009</b>	<b>3,512,749</b>	<b>\$ 40.46</b>

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Granted	1,904,618	41.90
Vested	(633,236)	64.75
Cancelled	(258,422)	38.08

**September 30, 2010** **4,525,709** **\$** **38.39**

As of September 30, 2010, there was \$21.4 million of total unrecognized compensation cost related to restricted stock expected to be recognized over a weighted average period of 2.64 years.

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The following table summarizes the changes in the Company's outstanding stock options for the nine months ended September 30, 2010:

	<b>Options</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Term (Years)</b>	<b>Aggregate Intrinsic Value</b>
<b>December 31, 2009</b>	<b>538,804</b>	<b>\$ 44.50</b>	<b>5.7</b>	<b>\$ 4,237,480</b>
Granted	-	-		
Exercised	(2,456)	40.06		
Cancelled	(15,370)	42.14		
<b>September 30, 2010</b>	<b>520,978</b>	<b>\$ 44.60</b>	<b>5.1</b>	<b>\$ 25,594</b>
<b>Options exercisable at September 30, 2010</b>	<b>404,314</b>	<b>\$ 45.62</b>	<b>4.4</b>	<b>\$ 25,594</b>

As of September 30, 2010, there was no unrecognized compensation cost related to stock options expected to be recognized over future years.

Cash received from option exercises for the nine months ended September 30, 2010 was \$0.1 million. The tax benefit realized for the tax deduction from option exercises was immaterial for the nine months ended September 30, 2010. Cash received from option exercises for the nine months ended September 30, 2009 was \$1.0 million. The tax deduction from option exercises totaled \$0.4 million for the nine months ended September 30, 2009.

**Note 20 Segment Reporting**

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

**Basis for Presentation**

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

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Reportable segment financial results are as follows:

<i>(Dollars in thousands)</i>	<b>Three Months Ended September</b>		<b>Nine Months Ended September</b>	
	<b>2010</b>	<b>30, 2009</b>	<b>2010</b>	<b>30, 2009</b>
<b>Capital Markets</b>				
Investment banking				
Financing				
Equities	\$ 19,839	\$ 17,769	\$ 71,603	\$ 45,126
Debt	16,486	20,493	46,022	53,007
Advisory services	20,595	10,138	55,767	38,527
<i>Total investment banking</i>	<b>56,920</b>	48,400	<b>173,392</b>	136,660
Institutional sales and trading				
Equities	24,292	31,438	78,720	92,484
Fixed income	20,159	32,101	57,268	95,072
<i>Total institutional sales and trading</i>	<b>44,451</b>	63,539	<b>135,988</b>	187,556
<i>Other income/(loss)</i>	<b>(1,956)</b>	3,954	<b>2,452</b>	1,644
Net revenues	<b>99,415</b>	115,893	<b>311,832</b>	325,860
Operating expenses (1)	<b>90,136</b>	99,794	<b>286,276</b>	285,247
Segment pre-tax operating income	\$ 9,279	\$ 16,099	\$ 25,556	\$ 40,613
Segment pre-tax operating margin	<b>9.3%</b>	13.9%	<b>8.2%</b>	12.5%
<b>Asset Management</b>				
<i>Management and performance fees</i>	\$ 16,812	\$ 3,568	\$ 41,839	\$ 9,817
<i>Other income/(loss)</i>	<b>236</b>	208	<b>31</b>	164
Net revenues	<b>17,048</b>	3,776	<b>41,870</b>	9,981
Operating expenses (1)	<b>12,749</b>	4,293	<b>32,857</b>	13,050
Segment pre-tax operating income/(loss)	\$ 4,299	\$ (517)	\$ 9,013	\$ (3,069)

Segment pre-tax operating margin	<b>25.2%</b>	N/M	<b>21.5%</b>	N/M
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**Total**

Net revenues	<b>\$ 116,463</b>	\$ 119,669	<b>\$ 353,702</b>	\$ 335,841
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Operating expenses (1)	<b>102,885</b>	104,087	<b>319,133</b>	298,297
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Total segment pre-tax operating income	<b>\$ 13,578</b>	\$ 15,582	<b>\$ 34,569</b>	\$ 37,544
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Pre-tax operating margin	<b>11.7%</b>	13.0%	<b>9.8%</b>	11.2%
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*N/M Not meaningful*

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

<i>(Dollars in thousands)</i>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2010</b>	2009	<b>2010</b>	2009
Capital Markets	\$ -	\$ -	\$ -	\$ -
Asset Management	<b>2,183</b>	614	5,363	1,842
Total amortization	<b>\$ 2,183</b>	\$ 614	<b>\$ 5,363</b>	\$ 1,842



**Table of Contents****Geographic Areas**

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

<i>(Dollars in thousands)</i>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2010</b>	2009	<b>2010</b>	2009
Net revenues:				
United States	\$ <b>103,551</b>	\$ 111,551	\$ <b>309,660</b>	\$ 313,162
Asia	<b>6,426</b>	3,258	<b>23,943</b>	10,178
Europe	<b>6,486</b>	4,860	<b>20,099</b>	12,501
Consolidated	\$ <b>116,463</b>	\$ 119,669	\$ <b>353,702</b>	\$ 335,841

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

<i>(Dollars in thousands)</i>	<b>September 30,</b>	December 31,
	<b>2010</b>	2009
Long-lived assets:		
United States	\$ <b>450,956</b>	\$ 260,439
Asia	<b>14,202</b>	11,943
Europe	<b>631</b>	965
Consolidated	\$ <b>465,789</b>	\$ 273,347

**Note 21 Net Capital Requirements and Other Regulatory Matters**

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

At September 30, 2010, net capital calculated under the SEC rule was \$211.4 million, and exceeded the minimum net capital required under the SEC rule by \$210.2 million.

Piper Jaffray Ltd., which is a registered United Kingdom broker dealer, is subject to the capital requirements of the U.K. Financial Services Authority ( FSA ). As of September 30, 2010, Piper Jaffray Ltd. was in compliance with the capital requirements of the FSA.

Piper Jaffray Asia Holdings Limited operates three entities licensed by the Hong Kong Securities and Futures Commission, which are subject to the liquid capital requirements of the Securities and Futures (Financial Resources) Rules promulgated under the Securities and Futures Ordinance. As of September 30, 2010, Piper Jaffray Asia regulated entities were in compliance with the liquid capital requirements of the Hong Kong Securities and Futures

Ordinance.

**Note 22** *Income Taxes*

The Company's effective income tax rate for the nine months ended September 30, 2010 was 56.8%, compared to 51.7% for the nine months ended September 30, 2009. The effective tax rate for the nine months ended September 30, 2010 was high because the Company did not record a tax benefit related to its U.K. subsidiary net operating loss carry forward deductions and due to a \$5.6 million write-off of a deferred tax asset resulting from restricted stock grants that vested at share prices lower than the grant date share price. The provision for income taxes for the nine months ended September 30, 2009 was high compared to pre-tax income because

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the Company did not record a tax benefit related to its U.K. subsidiary net operating loss carry forward deductions and incurred approximately \$3.0 million of one-time tax expense items.

**Note 23** *Subsequent Event*

On October 20, 2010, the Company announced plans to restructure its European operations to focus European resources on two areas: the distribution of U.S. and Asia securities to European institutional investors and merger and acquisition advisory services. As a result of the restructuring, the Company will exit the origination and distribution of European securities and expects to incur restructuring charges estimated to be between \$7.5 to \$9.0 million, which will be principally recorded in the fourth quarter of 2010. The Company expects to complete the transition by December 31, 2010. For more information, see the Company's Form 8-K filed on October 20, 2010.

**Table of Contents****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

The following information should be read in conjunction with the accompanying unaudited consolidated financial statements and related notes and exhibits included elsewhere in this report. Certain statements in this report may be considered forward-looking. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements. These forward looking statements include, among other things, statements other than historical information or statements of current condition and may relate to our future plans and objectives and results, and also may include our belief regarding the effect of various legal proceedings, as set forth under **Legal Proceedings** in Part I, Item 3 of our Annual Report on Form 10-K for the year ended December 31, 2009 and in our subsequent reports filed with the SEC. Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ materially from those anticipated, including those factors discussed below under **External Factors Impacting Our Business** as well as the factors identified under **Risk Factors** in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2009, as updated in our subsequent reports filed with the SEC. These reports are available at our Web site at [www.piperjaffray.com](http://www.piperjaffray.com) and at the SEC Web site at [www.sec.gov](http://www.sec.gov). Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update them in light of new information or future events.

**Executive Overview**

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

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

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

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

***Results for the three and nine months ended September 30, 2010***

For the three months ended September 30, 2010, we recorded net income of \$7.1 million, or \$0.36 per diluted common share, compared with net income of \$9.3 million, or \$0.47 per diluted common share for the corresponding period in the prior year. Net revenues for the third quarter of 2010 were \$116.5 million, down 2.7 percent from the year-ago period. Increased revenues associated with advisory services and our asset management business, driven by results from our acquisition of ARI, were offset by lower institutional brokerage revenues. For the third quarter of 2010, non-interest expense decreased slightly to \$102.9 million when compared to the prior-year period. Increased non-compensation expenses related primarily to the ARI acquisition, including intangible asset amortization, were more than offset by a decline in compensation expenses. In the third quarter of 2010, we recorded a reduction in compensation expense of \$6.6 million for a reversal of previously recognized compensation expense related to a performance-based restricted stock award.



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For the nine months ended September 30, 2010, net income was \$14.9 million, or \$0.75 per diluted common share, compared with net income of \$18.1 million for the prior-year period, or \$0.93 per diluted common share. Net revenues for the first nine months of 2010 increased 5.3 percent to \$353.7 million, as compared to the first nine months of 2009, driven by higher equity financing and advisory services revenues and increased asset management revenues, partially offset by lower institutional brokerage revenues. For the nine months-ended September 30, 2010, non-interest expense increased 7.0 percent to \$319.1 million, compared with the corresponding period in the prior year. This increase resulted from the acquisition of ARI and increased business activity.

***External Factors Impacting Our Business***

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

Factors that differentiate our capital markets business within the financial services industry also may affect our financial results. For example, our business focuses on a middle-market clientele in specific industry sectors. If the business environment for our focus sectors is impacted disproportionately as compared to the economy as a whole, or does not recover on pace with other sectors of the economy, our business and results of operations will be negatively impacted. Further, we may not participate or may participate to a lesser degree than other firms in sectors that experience significant activity, and our operating results may not correlate with the results of other firms who participate in these sectors. Given the variability of the capital markets and securities businesses, our earnings may fluctuate significantly from period to period, and results for any individual period should not be considered indicative of future results.

As a participant in the financial services industry, we are subject to complex and extensive regulation of our business. In light of recent conditions in the global financial markets and the global economy, legislators and regulators have increased their focus on the regulation of the financial services industry. This increased focus has resulted in the Dodd-Frank Wall Street Reform and Consumer Protection Act ( Dodd-Frank ), which was signed into law during the third quarter. Dodd-Frank will significantly restructure and intensify regulation in the financial services industry, which could increase our cost of doing business (or alter certain business practices) and change the competitive landscape, potentially substantially.

***Outlook for the remainder of 2010***

In the third quarter of 2010, lower equity financing revenues when compared to the second quarter of 2010, reflected reduced industry-wide activity in growth company IPOs, while advisory services revenues continued their solid trend and municipal financing revenues were at the highest level year-to-date. We will need constructive capital markets to realize revenues from our backlogs, which continue to be strong across all investment banking businesses. Fixed income institutional brokerage revenues rebounded from the challenging second quarter of 2010. Even though performance improved, we anticipate that the recent market volatility in the fixed income markets will continue during the remainder of 2010, and will negatively impact our fourth quarter of 2010 municipal institutional brokerage revenues. We also experienced reduced equity trading volumes resulting in lower equity institutional brokerage revenues and expect this industry-wide trend to continue through the end of the year. The acquisition of ARI has added scale to our asset management business, provided a more stable revenue stream and a platform to support future organic growth.

***Restructuring of European Operations***

On October 20, 2010, we announced plans to restructure our European operations to focus European resources on two areas: the distribution of U.S. and Asia securities to European institutional investors and merger and acquisition advisory services. As a result of the restructuring, we will exit the origination and distribution of European securities

and expect to incur a restructuring charge that is estimated to be between \$8.3 to \$9.8 million, the majority of which will be recorded in the fourth quarter of 2010. A total of \$0.8 million of the restructuring charge was recorded in the third quarter of 2010. We estimate that the restructuring charge will include approximately (i) \$6.2 to \$7.0 million in severance benefits, (ii) \$1.1 to \$1.3 million related to the reduction of leased office space, and (iii) \$1.0 to \$1.5 million related to contract termination costs. We expect to complete the transition by December 31, 2010.

**Table of Contents****Results of Operations****Financial Summary for the Three Months Ended September 30, 2010 and September 30, 2009**

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

<i>(Dollars in thousands)</i>	Three Months Ended			As a Percentage of Net Revenues	
	2010	September 30, 2009	2010 v2009	For the Three Months Ended September 30, 2010	2009
<b>Revenues:</b>					
Investment banking	\$ 56,243	\$ 48,115	16.9 %	48.3 %	40.2 %
Institutional brokerage	40,432	59,576	(32.1)	34.7	49.8
Interest	11,497	11,854	(3.0)	9.9	9.9
Asset management	16,812	3,568	371.2	14.4	3.0
Other income/(loss)	(368)	3,340	N/M	(0.3)	2.8
<b>Total revenues</b>	<b>124,616</b>	126,453	(1.5)	<b>107.0</b>	105.7
Interest expense	8,153	6,784	20.2	7.0	5.7
<b>Net revenues</b>	<b>116,463</b>	119,669	(2.7)	<b>100.0</b>	100.0
<b>Non-interest expenses:</b>					
Compensation and benefits	66,058	71,802	(8.0)	56.7	60.0
Occupancy and equipment	8,853	7,703	14.9	7.6	6.4
Communications	5,943	5,474	8.6	5.1	4.6
Floor brokerage and clearance	2,879	2,974	(3.2)	2.5	2.5
Marketing and business development	5,863	5,498	6.6	5.0	4.6
Outside services	7,945	6,234	27.4	6.8	5.2
Restructuring-related expenses	1,333	-	N/M	1.1	-
Other operating expenses	4,011	4,402	(8.9)	3.5	3.7
<b>Total non-interest expenses</b>	<b>102,885</b>	104,087	(1.2)	<b>88.3</b>	87.0
<b>Income before income tax expense</b>	<b>13,578</b>	15,582	(12.9)	<b>11.7</b>	13.0
Income tax expense	6,524	6,316	3.3	5.6	5.3



<b>Net income</b>	<b>\$ 7,054</b>	\$ 9,266	(23.9)%	<b>6.1 %</b>	7.7 %
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*N/M - Not meaningful*

For the three months ended September 30, 2010, we recorded net income of \$7.1 million. Net revenues for the three months ended September 30, 2010 were \$116.5 million, a 2.7 percent decrease from the year-ago period. For the third quarter of 2010, investment banking revenues increased 16.9 percent to \$56.2 million, compared with revenues of \$48.1 million in the prior-year period. The increase in investment banking revenues was attributable to higher equity financing revenues as well as increased advisory services revenues. In the third quarter of 2010, institutional brokerage revenues decreased 32.1 percent to \$40.4 million, compared with \$59.6 million in the corresponding period in the prior year, due to reduced equity and fixed income institutional brokerage revenues. In the third quarter of 2010, net interest income decreased to \$3.3 million, compared with \$5.1 million in the third quarter of 2009. The decrease was primarily the result of interest expense on the \$120 million of variable rate senior notes issued December 31, 2009, to

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finance a portion of the ARI acquisition. For the three months ended September 30, 2010, asset management fees were \$16.8 million, compared with \$3.6 million in the prior-year period. The increased revenues were driven by the results for ARI, which we acquired on March 1, 2010. In the third quarter of 2010, other income decreased to a loss of \$0.4 million, compared with income of \$3.3 million in the prior-year period, due to gains recorded on our firm investments in the third quarter of 2009. Non-interest expenses decreased slightly to \$102.9 million for the three months ended September 30, 2010, from \$104.1 million in the corresponding period in the prior year.

***Consolidated Non-Interest Expenses***

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

For the three months ended September 30, 2010, compensation and benefits expenses decreased 8.0 percent to \$66.1 million from \$71.8 million in the corresponding period in 2009. Compensation and benefits expenses as a percentage of net revenues were 56.7 percent for the third quarter of 2010, compared with 60.0 percent for the third quarter of 2009. The third quarter of 2010 included a \$6.6 million reversal of previously recognized compensation expense related to a performance-based restricted stock award granted to our leadership team in 2008 and 2009. This reversal reduced compensation and benefits expenses as a percentage of net revenues by 5.6 percentage points. The terms of the award require us to achieve an 11 percent return on adjusted equity over a 12-month time period by May 2013 to vest in its entirety. Given our current financial performance and the lagging pace of the economy, management determined that it is not probable that we will achieve this target. Therefore, \$6.6 million of previously recognized compensation expense was reversed in the current period.

***Occupancy and Equipment*** In the third quarter of 2010, occupancy and equipment expenses were \$8.9 million, compared with \$7.7 million for the corresponding period in 2009. The increase was attributable to additional occupancy expense from our acquisition of ARI as well as incremental occupancy costs as we transition to new office space in New York City and Hong Kong.

***Communications*** Communication expenses include costs for telecommunication and data communication, primarily consisting of expenses for obtaining third-party market data information. For the three months ended September 30, 2010, communications expenses were \$5.9 million, compared with \$5.5 million for the prior-year period. The increase was due to higher market data service expenses.

***Floor Brokerage and Clearance*** For the three months ended September 30, 2010, floor brokerage and clearance expenses were \$2.9 million, essentially flat compared with the three months ended September 30, 2009.

***Marketing and Business Development*** In the third quarter of 2010, marketing and business development expenses increased to \$5.9 million, compared with \$5.5 million in the third quarter of 2009. This increase was driven by higher travel costs associated with increased investment banking activities and incremental expense from the acquisition of ARI.

***Outside Services*** Outside services expenses include securities processing expenses, outsourced technology functions, outside legal fees and other professional fees. Outside services expenses increased to \$7.9 million in the third quarter of 2010, compared with \$6.2 million for the prior-year period, due primarily to increased legal fees and additional costs from our acquisition of ARI.

***Restructuring-Related Expense*** During the third quarter of 2010, we recorded a pre-tax restructuring charge of \$1.3 million related to headcount reductions in the Capital Markets segment, the majority of which were related to our European operations. As discussed in Outlook for the remainder of 2010, on October 20, 2010 we announced plans to restructure our European operations. As a result of the restructuring, we expect to incur a charge of \$7.5 to \$9.0 million in the fourth quarter of 2010.

***Other Operating Expenses*** Other operating expenses include insurance costs, amortization of intangible assets, license and registration fees, and expenses related to our charitable giving program and litigation-related expenses,

which consist of the amounts we reserve and/or pay out related to legal and regulatory matters. In the third quarter of 2010, other operating expenses decreased to \$4.0 million, compared with \$4.4 million in the third quarter of 2009. This decrease was primarily due to a decline in litigation-related

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expenses and charitable contributions, where giving levels are directly associated with our pre-tax income. This decline was offset in part by the increased intangible asset amortization expense related to the acquisition of ARI.

**Income Taxes** For the three months ended September 30, 2010, our provision for income taxes was \$6.5 million, equating to an effective tax rate of 48.0 percent. For the three months ended September 30, 2009, our provision for income taxes was \$6.3 million, equating to an effective tax rate of 40.5 percent. Our elevated effective tax rate in the third quarter of 2010 is principally due to net operating losses in the U.K. We maintain a 100 percent valuation allowance against our U.K.-based deferred tax assets. Therefore, we do not recognize a tax benefit from U.K. net operating losses. Based upon anticipated U.K. restructuring charges in the fourth quarter of 2010, we expect a significantly higher effective tax rate in the fourth quarter.

**Segment Performance**

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

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

	<b>Three Months Ended</b>		
	<b>September 30,</b>		
	<b>2010</b>	2009	2010 v2009
<i>(Dollars in thousands)</i>			
<b>Net revenues</b>			
Capital Markets	<b>\$ 99,415</b>	\$ 115,893	(14.2) %
Asset Management	<b>17,048</b>	3,776	351.5
<i>Total net revenues</i>	<b>\$ 116,463</b>	\$ 119,669	(2.7) %
<b>Pre-tax operating income/(loss)</b>			
Capital Markets	<b>\$ 9,279</b>	\$ 16,099	(42.4) %
Asset Management	<b>4,299</b>	(517)	N/M
<i>Total pre-tax operating income/(loss)</i>	<b>\$ 13,578</b>	\$ 15,582	(12.9) %
<b>Pre-tax operating margin</b>			
Capital Markets	<b>9.3 %</b>	13.9 %	
Asset Management	<b>25.2 %</b>	N/M	
<i>Total pre-tax operating margin</i>	<b>11.7 %</b>	13.0 %	

*N/M - Not meaningful*

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<i>Capital Markets</i>	<b>Three Months Ended</b>		
	<b>September 30,</b>		
	<b>2010</b>	2009	2010 v2009
<i>(Dollars in thousands)</i>			
<b>Net revenues:</b>			
Investment banking			
Financing			
Equities	\$ 19,839	\$ 17,769	11.6 %
Debt	16,486	20,493	(19.6)
Advisory services	20,595	10,138	103.1
<i>Total investment banking</i>	<b>56,920</b>	48,400	17.6
Institutional sales and trading			
Equities	24,292	31,438	(22.7)
Fixed income	20,159	32,101	(37.2)
<i>Total institutional sales and trading</i>	<b>44,451</b>	63,539	(30.0)
<i>Other income/(loss)</i>	<b>(1,956)</b>	3,954	N/M
 Total net revenues	 \$ 99,415	 \$ 115,893	 (14.2) %
 Pre-tax operating income	 \$ 9,279	 \$ 16,099	 (42.4) %
 Pre-tax operating margin	 9.3 %	 13.9 %	
<i>N/M - Not meaningful</i>			

Capital Markets net revenues decreased 14.2 percent to \$99.4 million in the third quarter of 2010, compared with \$115.9 million in the prior-year period, primarily driven by a decrease in institutional sales and trading revenues offset in part by higher investment banking revenues.

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

Investment banking revenues increased 17.6 percent to \$56.9 million in the third quarter of 2010, compared with \$48.4 million for the corresponding period in 2009, primarily driven by both increased equity financing revenues and advisory services revenues. For the three months ended September 30, 2010, equity financing revenues increased to \$19.8 million, compared with \$17.8 million in the prior-year period, resulting from increased revenues from Asia financings. During the third quarter of 2010, we completed 17 equity financings, raising \$2.6 billion in capital for our clients, compared with 16 equity financings, raising \$3.0 billion for the corresponding period in 2009. Debt financing revenues in the third quarter of 2010 decreased 19.6 percent to \$16.5 million, compared with \$20.5 million in the third quarter of 2009, resulting from a decline in the par value of completed transactions and lower revenue per transaction as we completed 161 public finance issues with a total par value of \$2.1 billion in the third quarter of 2010, compared with 150 public finance issues with a total par value of \$2.4 billion during the prior-year period. For the three months ended September 30, 2010, advisory services revenues increased 103.1 percent to \$20.6 million due to a higher

aggregate value of completed transactions and higher revenue per transaction. We completed 9 transactions with an aggregate enterprise value of \$1.5 billion during the third quarter of 2010, compared with 6 transactions with an aggregate enterprise value of \$0.5 billion in the third quarter of 2009.

Institutional sales and trading revenues comprise all the revenues generated through trading activities, which consist primarily of facilitating customer trades. To assess the profitability of institutional brokerage activities, we aggregate institutional brokerage revenues with the net interest income or expense associated with financing, economically hedging and holding long or short inventory positions. Our results may vary from quarter to quarter as a result of changes in trading margins, trading gains and losses, net interest spreads, trading volumes and the timing of transactions based on market opportunities.

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For the three months ended September 30, 2010, institutional brokerage revenues declined 30.0 percent to \$44.5 million, compared with \$63.5 million in the prior-year period, driven by both lower equity and fixed income institutional brokerage revenues. Equity institutional brokerage revenues decreased to \$24.3 million in the third quarter of 2010, compared with \$31.4 million in the prior period in 2009, mainly due to lower client volumes in U.S. equities, which was an industry-wide trend. Fixed income institutional brokerage revenues were \$20.2 million in the third quarter of 2010, compared with \$32.1 million in the prior-year, down from the robust performance in the third quarter of 2009 when we experienced a very favorable fixed income trading environment. Additionally, in the third quarter of 2010, investor concerns over credit risk continued, which led to wider credit spreads and lower client activity in municipal products and reduced trading performance across products. We anticipate that municipal institutional brokerage revenues will continue to be negatively impacted during the remainder of 2010 by interest rate and credit risks.

Other income/loss includes gains and losses from our merchant banking activities, other firm investments, income associated with the forfeiture of stock-based compensation and interest expense related to firm funding. In the third quarter of 2010, other income was a loss of \$2.0 million, compared with \$4.0 million of income in the prior-year period as a result of increased interest expense related to firm funding in the third quarter of 2010 and gains related to our firm investments recognized in the third quarter of 2009.

Segment pre-tax operating margin for the third quarter of 2010 decreased to 9.3 percent from 13.9 percent for the corresponding period in the prior year. In the third quarter of 2010, we experienced a shift in business with investment banking contributing a higher percentage of revenues and fixed income institutional sales and trading contributing a lower percentage. Investment banking activities generally have a higher level of compensation than fixed income institutional sales and trading. This, along with a decline in net revenues, drove the decline in our segment pre-tax operating margin. If this mix of business continues, we anticipate continued pressure on our Capital Markets segment pre-tax operating margin.

<i>Asset Management</i>	<b>Three Months Ended</b>		
	<b>September 30,</b>		
	<b>2010</b>	<b>2009</b>	<b>2010 v2009</b>
<i>(Dollars in thousands)</i>			
<b>Net revenues:</b>			
<i>Management and performance fees</i>	<b>\$ 16,812</b>	<b>\$ 3,568</b>	<b>371.2 %</b>
<i>Other income/(loss)</i>	<b>236</b>	<b>208</b>	<b>13.5</b>
Net revenues	<b>\$ 17,048</b>	<b>\$ 3,776</b>	<b>351.5 %</b>
Pre-tax operating income/(loss)	<b>\$ 4,299</b>	<b>\$ (517)</b>	<b>N/M</b>
Pre-tax operating margin	<b>25.2 %</b>	<b>N/M</b>	
<i>N/M - Not meaningful</i>			

Asset management revenues comprise all the revenues generated through management and investment advisory services performed for various funds and separately managed accounts. Asset management revenues increased 351.5 percent to \$17.0 million in the third quarter of 2010, compared with \$3.8 million for the corresponding period in 2009, due to the acquisition of ARI completed on March 1, 2010.

Other income/loss includes gains and losses from our investments in funds and partnerships. Other income/loss was a gain of \$236,000 in the third quarter of 2010, which was essentially flat compared with a gain of \$208,000 in the third quarter of 2009.

Segment pre-tax operating margin for the third quarter of 2010 was 25.2 percent, compared to a negative margin for the corresponding period in the prior year.



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The following table summarizes the changes in our assets under management for the three months ended September 30, 2010:

*(Dollars in millions)*

**Assets under management:**

<b>Balance at June 30, 2010:</b>	<b>\$ 11,847</b>
Net inflows/(outflows)	(5)
Net market appreciation/(depreciation)	909
<b>Balance at September 30, 2010:</b>	<b>\$ 12,751</b>

Assets under management increased \$0.9 billion to \$12.8 billion in the third quarter of 2010. The increase resulted primarily from market appreciation of the underlying assets in the funds due to an increase in equity prices during the quarter.

**Table of Contents****Financial Summary for the Nine Months Ended September 30, 2010 and September 30, 2009**

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

<i>(Dollars in thousands)</i>	Nine Months Ended			As a Percentage of Net Revenues	
	2010	2009	2010 v2009	For the Nine Months Ended September 30, 2010	2009
<b>Revenues:</b>					
Investment banking	\$ 171,736	\$ 134,615	27.6 %	48.5 %	40.1 %
Institutional brokerage	121,611	175,455	(30.7)	34.4	52.3
Interest	39,259	29,024	35.3	11.1	8.6
Asset management	41,839	9,817	326.2	11.8	2.9
Other income/(loss)	6,054	(1,209)	N/M	1.8	(0.4)
<b>Total revenues</b>	<b>380,499</b>	347,702	9.4	<b>107.6</b>	103.5
Interest expense	26,797	11,861	125.9	7.6	3.5
<b>Net revenues</b>	<b>353,702</b>	335,841	5.3	<b>100.0</b>	100.0
<b>Non-interest expenses:</b>					
Compensation and benefits	208,832	201,503	3.6	59.0	60.0
Occupancy and equipment	24,578	21,901	12.2	6.9	6.5
Communications	18,631	17,003	9.6	5.2	5.0
Floor brokerage and clearance	8,803	9,088	(3.1)	2.5	2.7
Marketing and business development	17,280	13,362	29.3	4.9	4.0
Outside services	23,684	21,168	11.9	6.7	6.3
Restructuring-related expenses	1,333	3,572	(62.7)	0.4	1.1
Other operating expenses	15,992	10,700	49.5	4.6	3.2
<b>Total non-interest expenses</b>	<b>319,133</b>	298,297	7.0	<b>90.2</b>	88.8
<b>Income before income tax expense</b>	<b>34,569</b>	37,544	(7.9)	<b>9.8</b>	11.2
Income tax expense	19,627	19,427	1.0	5.6	5.8
<b>Net income</b>	<b>\$ 14,942</b>	\$ 18,117	(17.5)%	<b>4.2 %</b>	5.4 %

*N/M - Not meaningful*

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

For the nine months ended September 30, 2010, net income totaled \$14.9 million, compared with \$18.1 million in the corresponding period in 2009. Net revenues were \$353.7 million for the nine months ended September 30, 2010, an increase of 5.3 percent from the year-ago period. For the nine months ended September 30, 2010, investment banking revenues increased 27.6 percent to \$171.7 million, compared with revenues of \$134.6 million for the first nine months of 2009 driven by increased equity financing revenues. Institutional brokerage revenues decreased 30.7 percent to \$121.6 million, compared with revenues of \$175.5 million in the prior-year period due to a decline in both equity and fixed income brokerage revenues. Net interest income for the first nine months of 2010

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decreased to \$12.5 million, down from \$17.2 million for the first nine months of 2009. The decrease was primarily the result of interest expense on the \$120 million of variable rate senior notes issued December 31, 2009 to finance a portion of the ARI acquisition. For the first nine months of 2010, asset management fees were \$41.8 million, compared with \$9.8 million in the prior-year period. The increased revenues were attributed to the results for ARI, which we acquired on March 1, 2010. Other income for the nine months ended September 30, 2010 was \$6.1 million, compared with a loss of \$1.2 million for the corresponding period in 2009. The change in other income is attributable to gains recorded on our firm investments and higher income associated with the forfeitures of stock-based compensation. Non-interest expenses increased to \$319.1 million for the nine months ended September 30, 2010, from \$298.3 million in the corresponding period in the prior year.

***Consolidated Non-Interest Expenses***

***Compensation and Benefits*** For the nine months ended September 30, 2010, compensation and benefits expenses increased 3.6 percent to \$208.8 million from \$201.5 million in the corresponding period in 2009. This increase was due to additional compensation expense from the acquisition of ARI, offset by the \$6.6 million reversal of compensation expense associated with a performance-based restricted stock award granted to our leadership team. Compensation and benefits expenses as a percentage of net revenues were 59.0 percent for the first nine months of 2010, compared with 60.0 percent for the first nine months of 2009. The \$6.6 million reversal of previously recognized compensation expense reduced compensation and benefits expenses as a percentage of net revenues by 1.9 percentage points.

***Restructuring-Related Expenses*** For the nine months ended September 30, 2010, we recorded a pre-tax restructuring charge of \$1.3 million related to headcount reductions in the Capital Markets segment, the majority of which were related to our European operations. For the nine months ended September 30, 2009, we recorded a pre-tax restructuring charge of \$3.6 million, primarily consisting of employee severance costs and charges related to leased office space. As discussed in our Outlook for the remainder of 2010, on October 20, 2010 we announced plans to restructure our European operations. As a result of the restructuring, we expect to incur a charge of \$7.5 to \$9.0 million in the fourth quarter of 2010.

***Other Operating Expenses*** For the nine months ended September 30, 2010, other operating expenses increased to \$16.0 million, compared with \$10.7 million for the corresponding period in 2009. This increase was primarily due to increased litigation-related expenses and intangible asset amortization expense related to the acquisition of ARI.

***Income Taxes*** For the nine months ended September 30, 2010, our provision for income taxes was \$19.6 million, equating to an effective tax rate of 56.8 percent. For the nine months ended September 30, 2009, our provision for income taxes was \$19.4 million, equating to an effective tax rate of 51.7 percent. The provision for income taxes for the nine months ended September 30, 2010 was high because we did not record a tax benefit related to U.K. subsidiary net operating loss carry forward deductions and due to a \$5.6 million write-off of a deferred tax asset resulting from restricted stock grants that vested at share prices lower than the grant date share price. The effective tax rate of 51.7 percent for the first nine months of 2009 included approximately \$3.0 million of one-time items that increased tax expense.

**Table of Contents****Segment Performance**

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

	<b>Nine Months Ended September 30,</b>		2010 v2009
	<b>2010</b>	2009	
<i>(Dollars in thousands)</i>			
<b>Net revenues</b>			
Capital Markets	<b>\$ 311,832</b>	\$ 325,860	(4.3)%
Asset Management	<b>41,870</b>	9,981	319.5
<i>Total net revenues</i>	<b>\$ 353,702</b>	\$ 335,841	5.3
<b>Pre-tax operating income/(loss)</b>			
Capital Markets	<b>\$ 25,556</b>	\$ 40,613	(37.1)
Asset Management	<b>9,013</b>	(3,069)	N/M
<i>Total pre-tax operating income/(loss)</i>	<b>\$ 34,569</b>	\$ 37,544	(7.9)%
<b>Pre-tax operating margin</b>			
Capital Markets	<b>8.2 %</b>	12.5 %	
Asset Management	<b>21.5 %</b>	N/M	
<i>Total pre-tax operating margin</i>	<b>9.8 %</b>	11.2 %	
<i>N/M - Not meaningful</i>			

<i>Capital Markets</i>	<b>Nine Months Ended September 30,</b>		2010 v2009
	<b>2010</b>	2009	
<i>(Dollars in thousands)</i>			
<b>Net revenues:</b>			
Investment banking			
Financing			
Equities	<b>\$ 71,603</b>	\$ 45,126	58.7 %
Debt	<b>46,022</b>	53,007	(13.2)
Advisory services	<b>55,767</b>	38,527	44.7
			%
<i>Total investment banking</i>	<b>173,392</b>	136,660	26.9
Institutional sales and trading			
Equities	<b>78,720</b>	92,484	(14.9)
Fixed income	<b>57,268</b>	95,072	(39.8)
<i>Total institutional sales and trading</i>	<b>135,988</b>	187,556	(27.5)
<i>Other income/(loss)</i>	<b>2,452</b>	1,644	49.1

Total net revenues	<b>\$ 311,832</b>	\$ 325,860	(4.3)%
Pre-tax operating income	<b>\$ 25,556</b>	\$ 40,613	(37.1)%
Pre-tax operating margin	<b>8.2 %</b>	12.5 %	

*N/M - Not meaningful*

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Capital Markets net revenues of \$311.8 million for the nine months ended September 30, 2010 decreased 4.3 percent compared with net revenues of \$325.9 million in the prior-year period as increased investment banking revenues were more than offset by decreases in institutional sales and trading revenues.

For the nine months ended September 30, 2010, investment banking revenues increased to \$173.4 million, compared with \$136.7 million in the prior-year period. Equity financing revenues increased to \$71.6 million in the first nine months of 2010, compared with \$45.1 million in the corresponding period in the prior year. During the nine months ended September 30, 2010, we completed 61 equity financings, raising \$7.9 billion in capital for our clients. During the nine months ended September 30, 2009, we completed 43 equity financings, raising \$8.9 billion. In the first nine months of 2010, debt financing revenues declined to \$46.0 million, compared with \$53.0 million in the corresponding period in 2009. In the first three quarters of 2010, we completed 398 public finance issues with a total par value of \$5.4 billion, compared with 379 public finance issues with a total par value of \$8.1 billion in the first three quarters of 2009. Advisory services revenues for the first nine months of 2010 increased 44.7 percent to \$55.8 million. For the nine months ended September 30, 2010, we completed 32 advisory transactions with an aggregate enterprise value of \$7.8 billion, compared with 23 advisory transactions with an aggregate enterprise value of \$2.9 billion in the first nine months of 2009.

For the nine months ended September 30, 2010, institutional sales and trading revenues decreased 27.5 percent to \$136.0 million, compared with \$187.6 million for the prior-year period. Equity institutional sales and trading revenues decreased 14.9 percent to \$78.7 million in the first nine months of 2010, compared with \$92.5 million in the first nine months of 2009. Fixed income institutional sales and trading revenues decreased to \$57.3 million for the nine months ended September 30, 2010, compared with \$95.1 million for the corresponding period in 2009.

For the nine months ended September 30, 2010, other income was \$2.5 million, compared with \$1.6 million in the corresponding period in 2009 due to gains on our firm investments and increased income from the forfeiture of stock-based compensation partially offset by higher interest expense related to funding the capital markets business.

Segment pre-tax operating margin for the nine months ended September 30, 2010 decreased to 8.2 percent from 12.5 percent for the corresponding period in the prior year. In 2010, we experienced a shift in business with investment banking contributing a higher percentage of revenues and fixed income institutional business contributing a lower percentage. Investment banking has a higher level of compensation. This, along with a decline in net revenues, drove the decline in our segment pre-tax operating margin. If this mix of business continues, we anticipate continued pressure on our Capital Markets segment pre-tax operating margin.

<i>Asset Management</i>	<b>Nine Months Ended</b>		
	<b>September 30,</b>		
	<b>2010</b>	<b>2009</b>	<b>2010</b>
			<b>v2009</b>
<i>(Dollars in thousands)</i>			
<b>Net revenues:</b>			
<i>Management and performance fees</i>	<b>\$ 41,839</b>	\$ 9,817	326.2 %
<i>Other income/(loss)</i>	<b>31</b>	164	(81.1)
Net revenues	<b>\$ 41,870</b>	\$ 9,981	319.5 %
Pre-tax operating income/(loss)	<b>\$ 9,013</b>	\$ (3,069)	N/M
Pre-tax operating margin	<b>21.5 %</b>	N/M	

*N/M - Not meaningful*

For the nine months ended September 30, 2010, asset management revenues increased to \$41.9 million as compared to \$10.0 million in the first nine months of 2009.

For the nine months ended September 30, 2010, other income/loss was a gain of \$31,000, which was essentially flat compared with a gain of \$164,000 for the corresponding period in the prior year.



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Segment pre-tax operating margin for the first nine months ended September 30, 2010 was 21.5 percent compared to a negative margin for the corresponding period in the prior year.

The following table summarizes the changes in our assets under management for the nine months ended September 30, 2010:

*(Dollars in millions)*

**Assets under management:**

<b>Balance at December 31, 2009</b>	<b>\$ 6,859</b>
Assets under management aquired in ARI acquisition	5,563
Net inflows/(outflows)	(415)
Net market appreciation/(depreciation)	744
<b>Balance at September 30, 2010</b>	<b>\$ 12,751</b>

For the nine months ended September 30, 2010, assets under management increased \$5.9 billion to \$12.8 billion as compared to \$6.9 billion at December 31, 2009. The increase was attributable to the acquisition of ARI, which was completed on March 1, 2010.

**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, 2009. We believe that of our significant accounting policies, the following are our critical accounting policies.

**Valuation of Financial Instruments**

Financial instruments and other inventory positions owned, financial instruments and other inventory positions sold, but not yet purchased and certain firm investments on our consolidated statements of financial condition consist of financial instruments recorded at fair value. 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

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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 financial instruments and other inventory positions owned, and financial instruments and other inventory positions sold, but not yet purchased, are based on observable market prices, observable market parameters, or derived from broker or dealer prices. The availability of observable market prices and pricing parameters can vary from product to product. Where available, observable market prices and pricing or market parameters in a product may be used to derive a price without requiring significant judgment. In certain markets, observable market prices or market parameters are not available for all products, and fair value is determined using techniques appropriate for each particular product. These techniques may involve some degree of judgment. Results from valuation models and other valuation techniques in one period may not be indicative of the future period fair value measurement.

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

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

Instruments that trade infrequently and therefore have little or no price transparency are classified within Level III based on the results of our price verification process. The Company's Level III assets were \$49.4 million and \$44.3 million as of September 30, 2010 and December 31, 2009, respectively, and represented approximately 5.2 percent and 5.4 percent of financial instruments measured at fair value. At September 30, 2010, this balance primarily consisted of asset-backed securities, principally collateralized by aircraft and residential mortgages, that have experienced low volumes of executed transactions, such that unobservable inputs had to be utilized for the fair value measurements; and convertible securities for which no recent trade activity was observed, resulting in the use of unobservable inputs. Asset-backed securities collateralized with airplane leases are valued using cash flow models that utilize unobservable inputs including airplane lease rates, trust costs, aircraft valuation and other factors impacting security cash flows. Asset-backed securities collateralized with residential mortgages are valued using cash flow models that utilize unobservable inputs that include credit default rates, prepayment rates and severity rates. Convertible securities are valued using models that utilize observable inputs such as specific company stock price and volatility and unobservable inputs that include option adjusted spreads. Fixed income securities are valued using models that utilize observable inputs such as security contractual terms and yield curves and unobservable inputs such as credit spreads.

During the first nine months of 2010, we recorded net sales of \$14.9 million of Level III assets, primarily consisting of \$15.4 million of net sales of short-term municipal securities and \$9.7 million of net sales of asset-backed securities, offset with \$7.1 million in net purchases of convertible securities. We had net transfers of \$13.2 million of assets from Level II to Level III in the first nine months of 2010. Transfers of net assets from Level II to Level III were related to fixed income securities and asset-backed securities, where no recent trade activity was observed and valuation inputs became unobservable. During the first nine months of 2010, net gains (realized and unrealized) on Level III assets of \$6.8 million were attributed to increased fair values of certain convertible securities and certain investments as well as gains on the sale of certain asset-backed securities and certain convertible securities. These net gains were offset by losses on the sale of certain short-term securities.

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With respect to liabilities, during the nine months ended September 30, 2010 we recorded net sales of \$3.3 million of Level III liabilities primarily consisting of \$8.0 million of net sales related to fixed income securities made to facilitate customer activity offset by \$4.8 million in net purchases of asset-backed securities. There were \$1.8 million of net transfers of financial liabilities from Level III to Level II for the nine months ended September 30, 2010 related to asset-backed securities for which market trades were observed in the quarter that provided for transparency into the valuation of these liabilities offset by net transfers of certain fixed income securities into Level III where no recent trade activity was observed and valuation inputs became unobservable.

Financial instruments carried at contract amounts have short-term maturities (one year or less), are repriced frequently or bear market interest rates and, accordingly, the carrying amount of those contracts approximate 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.

***Goodwill and Intangible Assets***

We record all assets and liabilities acquired in purchase acquisitions, including goodwill and other intangible assets, at fair value. Determining the fair value of assets and liabilities acquired requires certain management estimates. At September 30, 2010, we had goodwill of \$316.9 million. This goodwill balance primarily consists of \$152.3 million recorded in 2010 as a result of the acquisition of Advisory Research Holdings, Inc. \$44.4 million recorded in 2007 as a result of the acquisition of FAMCO, and \$105.5 million as a result of the 1998 acquisition by U.S. Bancorp of our predecessor, Piper Jaffray Companies Inc., and its subsidiaries.

Under FASB Accounting Standards Codification Topic 350, Intangibles Goodwill and Other, we are required to perform impairment tests of our goodwill and indefinite-lived intangible assets annually and on an interim basis when certain events or circumstances exist that could indicate possible impairment. We have elected to test for goodwill impairment in the fourth quarter of each calendar year. The goodwill impairment test is a two-step process, which requires management to make judgments in determining what assumptions to use in the calculation. The first step of the process consists of estimating the fair value of our principal reporting units based on the following factors: our market capitalization, a discounted cash flow model using revenue and profit forecasts, public market comparables and multiples of recent mergers and acquisitions of similar businesses. Valuation multiples may be based on revenues, price-to-earnings and tangible capital ratios of comparable public companies and business segments. These multiples may be adjusted to consider competitive differences including size, operating leverage and other factors. The estimated fair values of our reporting units are compared with their carrying values, which includes the allocated goodwill. If the estimated fair values are less than the carrying values, a second step is performed to compute the amount of the impairment by determining an implied fair value of goodwill. The determination of a reporting unit's implied fair value of goodwill requires us to allocate the estimated fair value of the reporting unit to the assets and liabilities of the reporting unit. Any unallocated fair value represents the implied fair value of goodwill, which is compared to its corresponding carrying value.

As noted above, the initial recognition of goodwill and other intangible assets and the subsequent impairment analysis requires management to make subjective judgments concerning estimates of how the acquired assets or businesses will perform in the future using valuation methods including discounted cash flow analysis. Our estimated cash flows typically extend for five years and, by their nature, are difficult to determine over an extended time period. Events and factors that may significantly affect the estimates include, among others, competitive forces and changes in revenue growth trends, cost structures, technology, discount rates and market conditions. To assess the reasonableness of cash flow estimates and validate assumptions used in our estimates, we review historical performance of the underlying assets or similar assets. In assessing the fair value of our reporting units, the volatile nature of the securities markets and our industry requires us to consider the business and market cycle and assess the stage of the cycle in estimating the timing and extent of future cash flows.

We last completed our annual goodwill impairment testing as of November 30, 2009, and no impairment was identified. We also tested the definite-lived intangible assets acquired as part of the FAMCO acquisition and concluded there was no impairment.

Given existing market conditions, declining profitability, the uncertain economic outlook and that our common shares are trading below book value at September 30, 2010, it is possible there could be future impairment within a reporting unit depending on changes in these factors. Because 100 percent of goodwill is treated as a non-allowable asset for regulatory purposes, the impact of any future impairment on net capital would not be significant, but 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 restricted stock and stock options. The Company accounts for equity awards in accordance with FASB Accounting Standards Codification Topic 718,

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Compensation Stock Compensation, ( ASC 718 ), which requires all share-based payments to employees, including grants of employee stock options, to be recognized in the statements of operations at grant date fair value over the service period of the award, net of estimated forfeitures.

Compensation paid to employees in the form of restricted stock or stock options is generally accrued or amortized on a straight-line basis over the required service period of the award and is included in our results of operations as compensation expense. The majority of these awards have a three-year cliff vesting schedule and 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. These post-termination restrictions do not meet the criteria for an in-substance service condition as defined by ASC 718. Accordingly, such restricted stock and option grants are expensed in the period in which those awards are deemed to be earned, which is generally the calendar year preceding our annual February equity grant. If any of these awards are cancelled, the lower of the fair value at grant date or the fair value at the date of cancellation is recorded within other income in the consolidated statements of operations.

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

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

We granted stock options in fiscal years 2004 through 2008. In determining the estimated fair value of stock options, we used 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.

***Contingencies***

We are involved in various pending and potential legal proceedings related to our business, including litigation, arbitration and regulatory proceedings. Some of these matters involve claims for substantial amounts, including claims for punitive and other special damages. We have, after consultation with outside legal counsel and consideration of facts currently known by management, recorded estimated losses in accordance with FASB Accounting Standards Codification Topic 450, Contingencies, to the extent that claims are probable of loss and the amount of the loss can be reasonably estimated. The determination of these reserve amounts requires significant judgment on the part of management. In making these determinations, we consider many factors, including, but not limited to, the loss and damages sought by the plaintiff or claimant, the basis and validity of the claim, the likelihood of a successful defense against the claim, and the potential for, and magnitude of, damages or settlements from such pending and potential litigation and arbitration proceedings, and fines and penalties or orders from regulatory agencies.

Given the uncertainties regarding timing, size, volume and outcome of pending and potential legal proceedings and other factors, the amounts of reserves are difficult to determine and of necessity subject to future revision. Subject to the foregoing, we believe, based on our current knowledge, after appropriate consultation with outside legal counsel and after taking into account our established reserves, that pending litigation, arbitration and regulatory proceedings will be resolved with no material adverse effect on our financial condition. However, if, during any period, a potential adverse contingency should become probable or resolved for an amount in excess of the established reserves, the results of operations in that period could be materially adversely affected.

***Income Taxes***

We file a consolidated U.S. federal income tax return, which includes all of our qualifying subsidiaries. We also are subject to income tax in various states and municipalities and those foreign jurisdictions in which we operate. Amounts provided for income taxes are based on income reported for financial statement purposes and do not necessarily represent amounts currently payable. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and

liabilities and their respective tax bases as well as tax loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income



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in the period that includes the enactment date. Deferred income taxes are provided for temporary differences in reporting certain items, principally, amortization of share-based compensation. The realization of deferred tax assets is assessed and a valuation allowance is recorded to the extent that it is more likely than not that any portion of the deferred tax asset will not be realized. We believe that our future taxable profits will be sufficient to recognize our U.S. deferred tax assets. If however, our projections of future taxable profits do not materialize, we may conclude that a valuation allowance is needed. We have recorded a deferred tax asset valuation allowance of \$6.1 million related to U.K. subsidiary net operating loss carry forwards.

We record deferred tax benefits for future tax deductions expected upon the vesting of share-based compensation. If deductions reported on our tax return for share-based compensation (i.e., the value of the share-based compensation at the time of vesting) exceed the cumulative cost of those instruments recognized for financial reporting (i.e., the grant date fair value of the compensation computed in accordance with ASC 718), we record the excess tax benefit as additional paid-in capital. Conversely, if deductions reported on our tax return for share-based compensation are less than the cumulative cost of those instruments recognized for financial reporting, we offset the deficiency first to any previously recognized excess tax benefits recorded as additional paid-in capital and any remaining deficiency is recorded as income tax expense. As of September 30, 2010, we do not have any available excess tax benefits within additional paid-in capital. Approximately 630,000 shares of restricted stock vested in the first nine months of 2010 at values less than the grant date fair value resulting in \$5.6 million of income tax expense in the first nine months of 2010. Based on our share price as of September 30, 2010, we estimate that the value of approximately 1,120,000 shares vesting in the first quarter of 2011 will be less than the grant date fair value resulting in \$5.2 million of income tax expense in the first quarter of 2011. The amount of any additional income tax expense is directly correlated to Piper Jaffray Companies share price at the date of vesting.

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

**Liquidity, Funding and Capital Resources**

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

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

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

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

We currently do not pay cash dividends on our common stock and do not plan to in the foreseeable future.

On April 16, 2008, we announced that our board of directors had authorized the repurchase of up to \$100 million in shares of our common stock. In the first half of 2010, we repurchased 893,050 shares or \$30.0 million of our common stock under this authorization. On June 30, 2010, this authorization expired and our board of directors approved a new

repurchase authorization on July 28, 2010 of up to \$75 million in shares of our common stock. Under the new authorization, we repurchased 540,532 shares or \$15.2 million of our common stock during the third quarter. This new authorization expires on September 30, 2012.

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We currently do not have a credit rating, which may adversely affect our liquidity and increase our borrowing costs by limiting access to sources of liquidity that require a credit rating as a condition to providing funds.

***Funding Sources***

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

***Short-term financing***

**Uncommitted Lines** We use uncommitted lines in the ordinary course of business to fund a portion of our daily operations, and the amount borrowed under our uncommitted lines varies daily based on our funding needs. Our uncommitted secured lines total \$275 million with three banks and are dependent on having appropriate collateral, as determined by the bank agreement, to secure an advance under the line. Collateral limitations could reduce the amount of funding available under these secured lines. We also have a \$100 million uncommitted unsecured facility with one of these banks. These uncommitted lines are discretionary and are not a commitment by the bank to provide an advance under the line. These lines are subject to approval by the respective bank each time an advance is requested and advances may be denied. We manage our relationships with the banks that provide these uncommitted facilities in order to have appropriate levels of funding for our business. At September 30, 2010, we had \$50 million in advances against these lines of credit.

**Committed Lines** Our committed line is a \$250 million revolving secured credit facility. We use this credit facility in the ordinary course of business to fund a portion of our daily operations, and the amount borrowed under the facility varies daily based on our funding needs. Advances under this facility are secured by certain marketable securities. The facility includes a covenant that requires our U.S. broker dealer subsidiary to maintain a minimum net capital of \$150 million, and the unpaid principal amount of all advances under the facility will be due on December 31, 2010. We anticipate being able to renew this credit facility in the fourth quarter of 2010. At September 30, 2010, we had no advances against our committed line of credit.

**Commercial Paper Program** In 2009, we initiated a secured commercial paper program to fund a portion of our securities inventories. The maximum amount that may be issued under the program is \$300 million, of which \$57.0 million was outstanding at September 30, 2010. The commercial paper notes are secured by our securities inventory with maturities on the commercial paper ranging from 27 days to 92 days from date of issuance.

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<i>(in millions)</i>	<b>Average balance for the Three Months Ended</b>		
	<b>Sept. 30, 2010</b>	June 30, 2010	March 31, 2010
<b>Funding source:</b>			
Repurchase agreements	<b>\$ 278.7</b>	\$ 342.3	\$ 92.3
Securities lending	-	9.8	27.7
Commercial paper	<b>58.8</b>	46.8	31.1
Short-term bank loans	<b>6.7</b>	95.1	74.4
Total	<b>\$ 344.2</b>	\$ 494.0	\$ 225.5

<i>(in millions)</i>	<b>Average balance for the Three Months Ended</b>			
	Dec. 31, 2009	Sept. 30, 2009	June 30, 2009	March 31, 2009
<b>Funding source:</b>				
Repurchase agreements	\$ 21.9	\$ 30.0	\$ 90.3	\$ 33.7
Securities lending	27.9	3.1	-	-
Commercial paper	0.7	-	-	-
Short-term bank loans	37.1	20.8	38.0	13.6
Total	\$ 87.6	\$ 53.9	\$ 128.3	\$ 47.3

The average funding balance for the first quarter of 2010 was \$225.5 million, compared with \$494.0 million during the second quarter of 2010. The change in average funding balances during the first and second quarter of 2010 was driven by our acquisition of ARI at the beginning of March, higher average inventory balances in the second quarter and the annual cash incentive payout made at the end of February. The average funding balance in the third quarter of 2010 declined to \$344.2 million, compared with \$494.0 million during the second quarter of 2010, due to a decline in average inventory balances.

The average funding balance for the third quarter of 2010 was \$344.2 million, compared with \$53.9 million in the third quarter of 2009. This increase was a result of our acquisition of ARI in March 2010 and higher average inventory balances.

**Variable rate senior notes**

On December 31, 2009, we issued variable rate senior notes ( Notes ) in the amount of \$120 million. The initial holders of the Notes are certain entities advised by Pacific Investment Management Company LLC ( PIMCO ). The unpaid principal amount of the Notes will be due on December 31, 2010. We have recently engaged a financial institution to conduct a refinancing of these notes and we are currently evaluating several refinancing options.

**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, 2009.

**Capital Requirements**

As a registered broker dealer and member firm of FINRA, our U.S. broker dealer subsidiary is subject to the uniform net capital rule of the SEC and the net capital rule of FINRA. We have elected to use the alternative method permitted by the uniform net capital rule, which requires that we maintain minimum net capital of the greater of \$1.0 million or

2 percent of aggregate debit balances arising from customer transactions, as this is defined in the rule. FINRA may prohibit a member firm from expanding its business or paying dividends if resulting net capital would be less than 5 percent of aggregate debit balances. Advances to affiliates, repayment of subordinated liabilities, dividend payments and other equity withdrawals are subject to certain notification and other provisions of the uniform net capital rule and the net capital rule of FINRA. We expect that these provisions will not impact our ability to meet current and future obligations. We also are subject to certain notification requirements related to withdrawals of excess net capital from our broker dealer subsidiary. At September 30, 2010, our net capital under the SEC's Uniform Net Capital Rule was \$211.4 million, and exceeded the minimum net capital required under the SEC rule by \$210.2 million.

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

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

**Off-Balance Sheet Arrangements**

In the ordinary course of business we enter into various types of off-balance sheet arrangements. The following table summarizes our off-balance-sheet arrangements at September 30, 2010 and December 31, 2009:

**Per Period at September 30, 2010**

	Remainder						Total	
	of			2013-	2015-		September 30, De	
(thousands)	2010	2011	2012	2014	2016	Later	2010	
matched-book derivative contracts	\$ -	\$ -	\$ -	\$ 155,090	\$ 148,585	\$ 6,167,224	\$ 6,470,899	\$
securities derivative contracts (2)	-	-	-	-	-	202,250	202,250	
interest rate swap index contracts (2)	-	-	-	-	140,000	-	140,000	
foreign currency forward contract (2)	4,891	-	-	-	-	-	4,891	
commitments	-	-	-	-	-	-	-	
equity and other principal investments	-	-	-	-	-	-	2,742	

(1) Consists of interest rate swaps. We have minimal market risk related to these matched-book derivative contracts; however, we do have counterparty risk with two major financial institutions, which are mitigated by collateral deposits. In addition, we have a limited number of counterparties (contractual amount of \$268.6 million at September 30,

2010) who are not required to post collateral. Based on market movements, the uncollateralized amounts representing the fair value of the derivative contract can become material, exposing us to the credit risk of these counterparties. At September 30, 2010, we had \$31.4 million of credit exposure with these counterparties, including \$17.5 million of credit exposure with one counterparty.

- (2) We believe the fair value of these derivative contracts is a more relevant measure of the obligations because we believe the notional or contract amount overstates the expected payout. At September 30, 2010 and December 31, 2009, the net fair value of these derivative contracts

*approximated  
\$28.5 million  
and \$14.1  
million,  
respectively.*

***Derivatives***

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

We enter into derivative contracts in a principal capacity as a dealer to satisfy the financial needs of clients. We also use derivative products to hedge the interest rate, market value and credit risks associated with our security positions. Our interest rate hedging strategies may not work in all market environments and as a result may not be effective in mitigating interest rate risk. For a complete discussion of our activities related to derivative products, see Note 5,

Financial Instruments and Other Inventory Positions Owned and Financial Instruments and Other Inventory Positions Sold, but Not Yet Purchased, in the notes to our unaudited consolidated financial statements.

***Loan Commitments***

We may commit to short-term bridge-loan financing for our clients or make commitments to underwrite corporate debt. We had no loan commitments outstanding at September 30, 2010.

***Private Equity and Other Principal Investments***

We have committed capital to certain non-consolidated private-equity funds. These commitments have no specified call dates. We had \$2.7 million of fund commitments outstanding at September 30, 2010.



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### ***Special Purpose Entities***

As of September 30, 2010, we have investments in various entities, typically partnerships or limited liability companies, established for the purpose of investing in equity and debt securities of public and private investments. We commit capital or act as the managing partner or member of these entities. Some of these entities are deemed to be VIEs. For a complete discussion of our activities related to these types of entities, see Note 7, Variable Interest Entities, to our unaudited consolidated financial statements.

### ***Other Off-Balance Sheet Exposure***

Our other types of off-balance-sheet arrangements include contractual commitments. For a discussion of our activities related to these off-balance sheet arrangements, see Note 17, Contingencies and Commitments, to our consolidated financial statements included in our Annual Report to Shareholders on Form 10-K for the year ended December 31, 2009.

### **Enterprise Risk Management**

Risk is an inherent part of our business, and the extent to which we properly identify and effectively manage this risk is critical to our financial condition and profitability. In the course of conducting business operations, we are exposed to a variety of risks. Market risk, liquidity risk, credit risk, operational risk, legal, regulatory and compliance risk, and reputational risk are the principal risks we face in operating our business. We seek to identify, assess and monitor each risk in accordance with defined policies and procedures.

The financial risk committee is the firm's primary risk committee and it is responsible for market, credit and liquidity risk oversight. The committee has twelve members, each of whom serves indefinitely. The committee includes many of the Company's senior executive officers, such as its chief executive officer, president, chief financial officer, general counsel, global head of equities, and head of fixed income. It also includes two business unit trading senior managers, financial risk management personnel and the treasurer.

The financial risk committee has established certain risk limits within market, credit and liquidity risk. The limits are binding and business units are required to function within the risk framework approved for their respective business activity. With respect to market risk, we have established limits in our trading groups to address risk concentrations by asset class, including value-at-risk ( VaR ), duration exposure, and net market positions. We also have established limits for credit exposures to address total exposure, sector concentrations, rating concentrations, single name limits, and similar matters. Lastly, we establish liquidity exposure limits for certain products to address our ability to fund financial instruments and other inventory positions owned and to reasonably mitigate liquidity risk. We set these limits based on type of financial instrument and our ability to use the financial instruments as collateral under various financing facilities, such as bank loans or securities sold under agreements to repurchase.

In setting these limits, select exposures have been set tightly in our judgment to ensure that we are effectively monitoring risk exposures and evolving business practices. Each quarter certain limits are exceeded, and these exceptions are reported to the financial risk committee monthly and the Audit Committee of our Board of Directors quarterly. If these limits are exceeded, management may determine to temporarily waive the risk limit in accordance with a process set forth in the charter for the financial risk committee. The process consists of a series of escalation procedures that require notification, a defined rationale for exception requests, and approval of the limit exception by financial risk management, the applicable business unit head, and, in certain circumstances, the Company's chief executive officer, president, and chief financial officer.

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

In addition to supporting daily risk management processes on the trading desks, our risk management function supports our financial risk committee.



**Table of Contents*****Market Risk***

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

Our different types of market risk include:

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

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

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

***Value-at-Risk***

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

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

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

The modeling of the market risk characteristics of our trading positions involves a number of assumptions and approximations. While we believe that these assumptions and approximations are reasonable, different assumptions and approximations could produce materially different VaR estimates.

The following table quantifies the model-based VaR simulated for each component of market risk for the periods presented computed using the past 250 days of historical data. When calculating VaR we use a 95 percent confidence

level and a one-day time horizon. This means that, over time, there is a 1 in 20 chance that daily trading net revenues will fall below the expected daily trading net revenues by an amount at least as large as the reported VaR. Shortfalls on a single day can exceed reported VaR by significant

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amounts. Shortfalls can also accumulate over a longer time horizon, such as a number of consecutive trading days. Therefore, there can be no assurance that actual losses occurring on any given day arising from changes in market conditions will not exceed the VaR amounts shown below or that such losses will not occur more than once in a 20-day trading period.

<i>(Dollars in thousands)</i>	<b>September 30, 2010</b>	December 31, 2009
Interest Rate Risk	\$ 560	\$ 1,147
Equity Price Risk	129	68
Diversification Effect (1)	(163)	(74)
<b>Total Value-at-Risk</b>	<b>\$ 526</b>	<b>\$ 1,141</b>

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

We view average VaR over a period of time as more representative of trends in the business than VaR at any single point in time. The table below illustrates the daily high, low and average value-at-risk calculated for each component of market risk during the nine months ended September 30, 2010 and the year ended December 31, 2009, respectively.

**For the Nine Months Ended September 30, 2010**

<i>(Dollars in thousands)</i>	High	Low	Average
Interest Rate Risk	\$ 4,359	\$ 178	\$ 1,673
Equity Price Risk	3,414	27	233
Diversification Effect (1)			(262)
<b>Total Value-at-Risk</b>	<b>\$ 4,227</b>	<b>\$ 165</b>	<b>\$ 1,644</b>

**For the Year Ended December 31, 2009**

<i>(Dollars in thousands)</i>	High	Low	Average
Interest Rate Risk	\$ 2,947	\$ 531	\$ 1,397
Equity Price Risk	951	21	221
Diversification Effect (1)			(252)
<b>Total Value-at-Risk</b>	<b>\$ 2,937</b>	<b>\$ 513</b>	<b>\$ 1,366</b>

*(1) Equals the difference*

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

Trading losses incurred on a single day exceeded our one-day VaR on seven occasions during the first nine months of 2010.

The aggregate VaR as of September 30, 2010 was lower compared to levels reported as of December 31, 2009. This is due principally to two factors: (1) more efficient position management and (2) continuing shift to lower duration assets on the overall balance sheet, as market participants have shifted to short-term maturities.

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

***Liquidity Risk***

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

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

We have a relatively low leverage ratio of 2.56 as of September 30, 2010. This compares to our leverage ratio of 2.19 as of December 31, 2009. The change in our leverage ratio is primarily the result of increased inventory as well as the acquisition of ARI in March of 2010. We calculate our leverage ratio by dividing total assets by total shareholders equity.

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

We currently act as the remarketing agent for approximately \$5.8 billion of variable rate demand notes, all of which have a financial institution providing a liquidity guarantee. As remarketing agent for our clients' variable rate demand notes, we are the first source of liquidity for sellers of these instruments. At certain times, demand from buyers of variable rate demand notes is less than the supply generated by sellers of these instruments. In times of supply and demand imbalance, we may (but are not obligated to) facilitate liquidity by purchasing variable rate demand notes from sellers for our own account. Our liquidity risk related to variable rate demand notes is ultimately mitigated by our ability to tender these securities back to the financial institution providing the liquidity guarantee.

***Credit Risk***

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

In addition to the financial risk committee, our global commitment committee reviews and approves certain underwriting capital markets transactions, as well as certain strategic short and medium-term credit-based transactions. Composition of this committee is determined by professional experience and ability to contribute to the assessment of underwriting opportunities. Committee membership is permanent and includes the chief executive officer, president, senior manager from financial risk management, chief counsel to the business line, and numerous other senior level leaders of the Company. During our capital raising activities with customers we may, from time to time, enter into bought-deal agreements whereby we purchase a large block of securities from an issuer client. These agreements may require us to increase equity inventories by more than what is normal through our market making activities. Although these deals may increase our risk profile for a short period of time, the transactions are structured to mitigate the market risk to the Company.

The public finance services commitment committee reviews and approves certain non-rated public finance underwriting opportunities. Committee membership is permanent and consists of our head of public finance, head of fixed income, a senior manager from financial risk management, chief counsel to the business line, and two senior members of fixed income trading management.

We have concentrated counterparty credit exposure with six non-publicly rated entities totaling \$31.4 million at September 30, 2010. This counterparty credit exposure is part of our derivative program, consisting primarily of interest rate swaps. One derivative counterparty represents 55.7 percent, or \$17.5 million, of this exposure. Credit exposure associated with our derivative counterparties is driven by uncollateralized market movements in the fair value of the interest rate swap contracts and is monitored regularly by our financial risk committee.

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

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



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Credit exposure associated with our investments in private company debt instruments are monitored regularly by our financial risk committee. These investments are recorded in other assets at amortized cost on the consolidated statement of financial condition. At September 30, 2010, we had two debt investments totaling \$10.5 million. One of these debt investments in the amount of \$5.5 million is in default as of September 30, 2010; however, we currently believe that the value of our secured collateral exceeds \$5.5 million and accordingly, we have not recorded an impairment loss on this loan as of September 30, 2010.

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

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

We also are exposed to the risk of loss related to changes in the credit spreads of debt instruments. Credit spread risk arises from potential changes in an issuer's credit rating or the market's perception of the issuer's credit worthiness. We enter into credit default swap index contracts to hedge this risk, which may not work in all market environments and as a result may not be effective in mitigating credit risk. These credit default swap index contracts are recorded at fair value with the changes in fair value recognized in earnings.

***Operational Risk***

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

***Legal, Regulatory and Compliance Risk***

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

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

***Reputation and Other Risk***

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

***Effects of Inflation***

Because our assets are generally liquid in nature, they are not significantly affected by inflation. However, the rate of inflation affects our expenses, such as employee compensation, office space leasing costs and communications charges, which may not be readily



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recoverable in the price of services we offer to our clients. To the extent inflation results in rising interest rates and has other adverse effects upon the securities markets, it may adversely affect our financial position and results of operations.

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

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

**ITEM 4. CONTROLS AND PROCEDURES.**

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is (a) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and (b) accumulated and communicated to our management, including our principal executive officer and principal financial officer to allow timely decisions regarding disclosure. During the third quarter of the fiscal year ended December 31, 2010, 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.**

The following supplements and amends our discussion set forth under Part I, Item 3 "Legal Proceedings" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, as updated by our Quarterly Report on Form 10-Q for the quarter ended March 31, 2010.

*Union County, Iowa v. Piper Jaffray & Co., Inc.*

Piper Jaffray & Co., Inc., has been named as a defendant in a complaint filed in federal district court in Des Moines, Iowa on June 30, 2006. The claim arises in connection with two municipal financings completed by Union County in 1997 and 1998 aggregating approximately \$6.0 million, for which Piper Jaffray & Co. acted as underwriter, and alleges breach of fiduciary duty, breach of contract, negligent misrepresentation, negligence and fraud. On September 29, 2010, Piper Jaffray & Co.'s motion for summary judgment was granted in part (with respect to the breach of contract claim) and denied in part (as to the other claims). A trial is currently scheduled to commence on December 6, 2010. We believe that Piper Jaffray & Co. has meritorious defenses to the action and intends to vigorously defend against it.

**ITEM 1A. RISK FACTORS.**

The discussion of our business and operations should be read together with the risk factors contained in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 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.

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

The table below sets forth the information with respect to purchases made by or on behalf of Piper Jaffray Companies or any affiliated purchaser (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of our common stock during the quarter ended September 30, 2010.

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)</b>
Month #1 (July 1, 2010 to July 31, 2010)	0	\$ -	0	\$ 75 million (1)
Month #2 (August 1, 2010 to August 31, 2010)	422,331 (2)	\$ 28.01	404,403	\$ 64 million
Month #3 (September 1, 2010 to September 30, 2010)	136,129 (3)	\$ 28.63	136,129	\$ 60 million
<b>Total</b>	<b>558,460</b>	<b>\$ 28.16</b>	<b>540,532</b>	<b>\$ 60 million</b>

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

(2) Consists of 404,403 shares of common stock repurchased on

*the open market pursuant to a 10b5-1 plan established with an independent agent at an average price per share of \$28.01, and 17,928 shares of common stock withheld from recipients of restricted stock to pay taxes upon the vesting of the restricted stock at an average price per share of \$28.00.*

- (3) *Consists of 136,129 shares of common stock repurchased on the open market pursuant to a 10b5-1 plan established with an independent agent at an average price per share of \$28.63.*

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.

**Table of Contents****ITEM 6. EXHIBITS.**

<b>Exhibit Number</b>	<b>Description</b>	<b>Method of Filing</b>
10.1	Note Purchase Agreement dated December 31, 2009 among Piper Jaffray Companies, Piper Jaffray & Co. and the Purchasers party thereto	Filed herewith
10.2	Third Amendment to Loan Agreement (Broker-Dealer VRDN), dated September 30, 2010 between Piper Jaffray & Co. and U.S. Bank National Association	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
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Statements of Financial Condition as of September 30, 2010 and December 31, 2009, (ii) the Consolidated Statements of Operations for the three and nine months ended September 30, 2010 and 2009, (iii) the Consolidated Statements of Cash Flows for the nine months ended September 30, 2010 and 2009 and (iv) the notes to the Consolidated Financial Statements, tagged as blocks of text.	Filed herewith

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on November 3, 2010.

PIPER JAFFRAY COMPANIES

By /s/ Andrew S. Duff

Its Chairman and Chief Executive Officer

By /s/ Debbra L. Schoneman

Its Chief Financial Officer

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