

# PIPER JAFFRAY COMPANIES (PJC)

## 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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

**FORM 10-Q**

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

For the Quarterly Period Ended June 30, 2012

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)

**800 Nicollet Mall, Suite 800**

**Minneapolis, Minnesota**

(Address of Principal Executive Offices)

**30-0168701**

(IRS Employer Identification No.)

**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 July 20, 2012, the registrant had 17,759,917 shares of Common Stock outstanding.

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Piper Jaffray Companies

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## PART I. FINANCIAL INFORMATION.

## ITEM 1. FINANCIAL STATEMENTS

Piper Jaffray Companies  
Consolidated Statements of Financial Condition

	June 30, 2012	December 31, 2011
	(Unaudited)	
<i>(Amounts in thousands, except share data)</i>		
<b>Assets</b>		
Cash and cash equivalents	\$ 39,592	\$ 85,807
Cash and cash equivalents segregated for regulatory purposes	17,009	25,008
Receivables:		
Customers	52,179	24,196
Brokers, dealers and clearing organizations	155,141	124,661
Securities purchased under agreements to resell	112,791	160,146
Financial instruments and other inventory positions owned	404,260	391,694
Financial instruments and other inventory positions owned and pledged as collateral	782,436	405,887
Total financial instruments and other inventory positions owned	1,186,696	797,581
Fixed assets (net of accumulated depreciation and amortization of \$60,277 and \$58,923, respectively)	19,538	21,793
Goodwill	202,352	202,352
Intangible assets (net of accumulated amortization of \$25,542 and \$21,708, respectively)	47,470	51,304
Other receivables	51,699	41,570
Other assets	114,604	121,303
Total assets	<u>\$ 1,999,071</u>	<u>\$ 1,655,721</u>
<b>Liabilities and Shareholders' Equity</b>		
Short-term financing	\$ 428,663	\$ 168,701
Bank syndicated financing	88,619	115,000
Payables:		
Customers	35,837	29,373
Brokers, dealers and clearing organizations	172,794	35,436
Securities sold under agreements to repurchase	157,565	109,080
Financial instruments and other inventory positions sold, but not yet purchased	282,457	303,504
Accrued compensation	62,340	109,588
Other liabilities and accrued expenses	28,900	34,439
Total liabilities	1,257,175	905,121
Shareholders' equity:		
Common stock, \$0.01 par value:		
Shares authorized: 100,000,000 at June 30, 2012 and December 31, 2011;		
Shares issued: 19,530,359 at June 30, 2012 and 19,524,512 at December 31, 2011;		
Shares outstanding: 15,200,646 at June 30, 2012 and 15,750,188 at December 31, 2011	195	195
Additional paid-in capital	757,241	791,166
Retained earnings	87,315	77,535
Less common stock held in treasury, at cost: 4,329,713 shares at June 30, 2012 and 3,774,324 shares at December 31, 2011	(141,980)	(151,110)
Accumulated other comprehensive income	614	605
Total common shareholders' equity	703,385	718,391
Noncontrolling interests	38,511	32,209
Total shareholders' equity	741,896	750,600
Total liabilities and shareholders' equity	<u>\$ 1,999,071</u>	<u>\$ 1,655,721</u>

See Notes to the Consolidated Financial Statements

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
<i>(Amounts in thousands, except per share data)</i>				
<b>Revenues:</b>				
Investment banking	\$ 50,324	\$ 67,062	\$ 99,192	\$ 114,103
Institutional brokerage	32,145	37,800	77,476	86,031
Asset management	17,434	19,640	35,339	37,569
Interest	12,166	13,144	23,339	27,373
Other income	979	2,911	1,008	8,331
Total revenues	<u>113,048</u>	<u>140,557</u>	<u>236,354</u>	<u>273,407</u>
Interest expense	6,650	7,693	13,090	15,854
Net revenues	<u>106,398</u>	<u>132,864</u>	<u>223,264</u>	<u>257,553</u>
<b>Non-interest expenses:</b>				
Compensation and benefits	66,487	80,291	139,166	155,745
Occupancy and equipment	7,653	8,992	15,533	17,440
Communications	5,310	6,203	11,663	12,814
Floor brokerage and clearance	2,088	2,219	4,308	4,685
Marketing and business development	6,262	6,725	11,383	12,935
Outside services	7,873	6,819	14,013	14,925
Restructuring-related expenses	3,642	-	3,642	-
Intangible asset amortization expense	1,917	2,069	3,834	4,138
Other operating expenses	3,513	2,412	5,698	6,203
Total non-interest expenses	<u>104,745</u>	<u>115,730</u>	<u>209,240</u>	<u>228,885</u>
<b>Income before income tax expense/(benefit)</b>	<b>1,653</b>	<b>17,134</b>	<b>14,024</b>	<b>28,668</b>
Income tax expense/(benefit)	(5,767)	5,987	2,238	10,102
<b>Net income</b>	<b>7,420</b>	<b>11,147</b>	<b>11,786</b>	<b>18,566</b>
Net income applicable to noncontrolling interests	569	453	2,006	639
<b>Net income applicable to Piper Jaffray Companies</b>	<b>\$ 6,851</b>	<b>\$ 10,694</b>	<b>\$ 9,780</b>	<b>\$ 17,927</b>
<b>Net income applicable to Piper Jaffray Companies' common shareholders</b>	<b>\$ 5,890</b>	<b>\$ 8,760</b>	<b>\$ 8,344</b>	<b>\$ 14,422</b>
<b>Earnings per common share</b>				
Basic	\$ 0.37	\$ 0.55	\$ 0.52	\$ 0.93
Diluted	\$ 0.37	\$ 0.55	\$ 0.52	\$ 0.93
<b>Weighted average number of common shares outstanding</b>				
Basic	15,932	15,840	16,002	15,510
Diluted	15,932	15,845	16,002	15,536

*See Notes to the Consolidated Financial Statements*

**Piper Jaffray Companies**  
**Consolidated Statements of Comprehensive Income**  
**(Unaudited)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<i>(Amounts in thousands)</i>				
<b>Net income</b>	<b>\$ 7,420</b>	<b>\$ 11,147</b>	<b>\$ 11,786</b>	<b>\$ 18,566</b>
<b>Other comprehensive income/(loss), net of tax:</b>				
Foreign currency translation adjustment	<b>(79)</b>	<b>88</b>	<b>9</b>	<b>55</b>
<b>Comprehensive income</b>	<b>7,341</b>	<b>11,235</b>	<b>11,795</b>	<b>18,621</b>
Comprehensive income applicable to noncontrolling interests	<b>569</b>	<b>453</b>	<b>2,006</b>	<b>639</b>
<b>Comprehensive income applicable to Piper Jaffray Companies</b>	<b>\$ 6,772</b>	<b>\$ 10,782</b>	<b>\$ 9,789</b>	<b>\$ 17,982</b>

*See Notes to the Consolidated Financial Statements*

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

	<b>Six Months Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>
<i>(Dollars in thousands)</i>		
<b>Operating Activities:</b>		
Net income	\$ 11,786	\$ 18,566
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization of fixed assets	3,689	3,642
Deferred income taxes	16,049	17,008
Stock-based compensation	5,485	15,734
Amortization of intangible assets	3,834	4,138
Amortization of forgivable loans	3,885	4,351
Decrease/(increase) in operating assets:		
Cash and cash equivalents segregated for regulatory purposes	7,999	(3,000)
Receivables:		
Customers	(27,989)	(46,581)
Brokers, dealers and clearing organizations	(30,479)	(25,048)
Securities purchased under agreements to resell	47,355	8,288
Net financial instruments and other inventory positions owned	(410,162)	(57,242)
Other receivables	(14,016)	(15,089)
Other assets	(9,331)	(5,867)
Increase/(decrease) in operating liabilities:		
Payables:		
Customers	6,427	16,990
Brokers, dealers and clearing organizations	137,358	3,197
Securities sold under agreements to repurchase	3,289	43,516
Accrued compensation	(35,307)	(57,689)
Other liabilities and accrued expenses	(5,402)	(7,835)
Net cash used in operating activities	<u>(285,530)</u>	<u>(82,921)</u>
<b>Investing Activities:</b>		
Business acquisitions, net of cash acquired	-	(56)
Purchases of fixed assets, net	(1,438)	(4,339)
Net cash used in investing activities	<u>(1,438)</u>	<u>(4,395)</u>
<b>Financing Activities:</b>		
Increase in short-term financing	259,962	31,039
Decrease in bank syndicated financing	(26,381)	(5,000)
Increase in securities sold under agreements to repurchase	45,196	84,906
Increase in noncontrolling interests	4,296	15,089
Repurchase of common stock	(42,291)	(19,663)
Excess tax benefits from stock-based compensation	-	405
Proceeds from stock option transactions	-	40
Net cash provided by financing activities	<u>240,782</u>	<u>106,816</u>
Currency adjustment:		
Effect of exchange rate changes on cash	(29)	(29)
Net increase/(decrease) in cash and cash equivalents	<u>(46,215)</u>	<u>19,471</u>
Cash and cash equivalents at beginning of period	85,807	50,602
Cash and cash equivalents at end of period	<u>\$ 39,592</u>	<u>\$ 70,073</u>
Supplemental disclosure of cash flow information -		
Cash paid/(received) during the period for:		
Interest	\$ 13,636	\$ 16,937
Income taxes	\$ (1,827)	\$ 19,138
Non-cash financing activities -		
Issuance of common stock for retirement plan obligations:		
165,241 shares and 90,085 shares for the six months ended June 30, 2012 and 2011, respectively	\$ 3,814	\$ 3,814
Issuance of restricted common stock for annual equity award:		
487,181 shares and 592,697 shares for the six months ended June 30, 2012 and 2011, respectively	\$ 11,244	\$ 25,095

*See Notes to the Consolidated Financial Statements*

**Piper Jaffray Companies**  
**Notes to the Consolidated Financial Statements**

**Note 1 Organization and Basis of Presentation**

**Organization**

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

*Capital Markets*

The Capital Markets segment provides institutional sales, trading and research services and investment banking services. Institutional sales, trading and research services focus on the trading of equity and fixed income products with institutions, government and non-profit entities. Revenues are generated through commissions and sales credits earned on equity and fixed income institutional sales activities, net interest revenues on trading securities held in inventory, and profits and losses from trading these securities. 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. Also, the Company generates revenue through strategic trading activities, which focus on municipal bond securities and structured residential mortgages, and merchant banking activities, which involve proprietary debt or equity investments in late stage private companies. As certain of these efforts have matured and an investment process has been developed, the Company has created alternative asset management funds in order to invest firm capital as well as seek capital from outside investors. The Company has created three such funds, one in merchant banking and two in municipal securities. The Company receives management and performance fees for managing the funds.

As discussed in Note 22, on July 25, 2012, the Company announced its intention to exit the Hong Kong capital markets business.

*Asset Management*

The Asset Management segment provides traditional asset management services with product offerings in equity, master limited partnerships and fixed income securities to institutions and high net worth individuals through proprietary distribution channels. Revenues are generated in the form of management fees and performance fees. The majority of the Company's performance fees, if earned, are generally recognized in the fourth quarter. Revenues are also generated through investments in the private funds or partnerships and registered funds that the Company manages.

**Basis of Presentation**

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") and include the accounts of Piper Jaffray Companies, its wholly owned subsidiaries, and all other entities in which the Company has a controlling financial interest. Noncontrolling interests represent equity interests in consolidated entities that are not attributable, either directly or indirectly, to Piper Jaffray Companies. Noncontrolling interests include the minority equity holders' proportionate share of the equity in a municipal bond fund and private equity investment vehicles. All material intercompany balances have been eliminated.

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The preparation of financial statements and related disclosures in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates and assumptions are based on the best information available, actual results could differ from those estimates.

### *Reclassification*

In the second quarter of 2012, the Company reclassified the value of restricted stock forfeitures during the quarter from other income to a reduction of compensation and benefits expense within the consolidated statements of operations to be consistent with the reporting of forfeitures for the Piper Jaffray Companies Mutual Fund Restricted Share Investment Plan and to more accurately reflect compensation expense. Prior period amounts have been reclassified in the accompanying financial statements to conform to current period presentation. The reclassified amounts were \$3.1 million and \$3.2 million for the three and six months ended June 30, 2011, respectively. This change had no effect on shareholders' equity, net income or cash flows for any of the periods presented.

### **Note 2 Summary of Significant Accounting Policies**

Refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2011, for a full description of the Company's significant accounting policies.

### **Note 3 Recent Accounting Pronouncements**

#### **Adoption of New Accounting Standards**

##### *Repurchase Agreements*

In April 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-03, "Reconsideration of Effective Control for Repurchase Agreements," ("ASU 2011-03") amending FASB Accounting Standards Codification Topic 860, "Transfers and Servicing" ("ASC 860"). The amended guidance addresses the reporting of repurchase agreements ("repos") and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. ASC 860 states that the accounting for repos depends in part on whether the transferor maintains effective control over the transferred financial assets. If the transferor maintains effective control, the transferor is required to account for its repo as a secured borrowing rather than a sale. ASU 2011-03 removes from the assessment of effective control the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets. ASU 2011-03 was effective for new transactions and transactions that are modified on or after January 1, 2012. The adoption of ASU 2011-03 did not impact the Company's consolidated financial statements as the Company accounts for its repos as secured borrowings.

##### *Fair Value Measurement*

In May 2011, the FASB issued ASU No. 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs," ("ASU 2011-04") amending FASB Accounting Standards Codification Topic 820, "Fair Value Measurement" ("ASC 820"). The amended guidance improves the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and International Financial Reporting Standards. Although most of the amendments only clarify existing guidance in U.S. GAAP, ASU 2011-04 requires new disclosures, with a particular focus on Level III measurements, including quantitative information about the significant unobservable inputs used for all Level III measurements and a qualitative discussion about the sensitivity of recurring Level III measurements to changes in the unobservable inputs disclosed. ASU 2011-04 also requires the hierarchy classification for those items whose fair value is not recorded on the balance sheet but is disclosed in the footnotes. ASU 2011-04 was effective for the Company as of January 1, 2012. The adoption of ASU 2011-04 did not impact the Company's results of operations or financial position, but did impact the Company's disclosures about fair value measurement.

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### *Comprehensive Income*

In June 2011, the FASB issued ASU No. 2011-05, "Presentation of Comprehensive Income," ("ASU 2011-05") amending FASB Accounting Standards Codification Topic 220, "Comprehensive Income." The amended guidance improves the comparability, consistency, and transparency of financial reporting and increases the prominence of items reported in other comprehensive income. ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity, and requires that all nonowner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 was effective for the Company as of January 1, 2012. The adoption of ASU 2011-05 did not impact the Company's results of operations or financial position. The Company included its presentation of other comprehensive income, and the components of other comprehensive income, in a separate statement of comprehensive income.

### *Goodwill*

In September 2011, the FASB issued ASU No. 2011-08, "Testing Goodwill for Impairment," ("ASU 2011-08") amending FASB Accounting Standards Codification Topic 350, "Intangibles – Goodwill and Other" ("ASC 350"). The amended guidance permits companies to first assess qualitative factors in determining whether the fair value of a reporting unit is less than its carrying amount. ASU 2011-08 was effective for annual and interim goodwill impairment tests performed by the Company for the fiscal year beginning January 1, 2012. The adoption of ASU 2011-08 did not impact the Company's results of operations or financial position.

### **Future Adoption of New Accounting Standards**

#### *Disclosures about Offsetting Assets and Liabilities*

In December 2011, the FASB issued ASU No. 2011-11, "Disclosures about Offsetting Assets and Liabilities," ("ASU 2011-11") amending FASB Accounting Standards Codification Topic 210, "Balance Sheet." The amended guidance requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. ASU 2011-11 is effective for interim and annual periods beginning on or after January 1, 2013, and will be applied retrospectively for all comparable periods presented. The adoption of ASU 2011-11 is not expected to have a material impact on the Company's results of operations or financial position, but it will impact the Company's disclosures about the offsetting of derivative contracts and related arrangements.

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### **Note 4** *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>June 30, 2012</b>	<b>December 31, 2011</b>
<b>Financial instruments and other inventory positions owned:</b>		
Corporate securities:		
Equity securities	\$ 25,249	\$ 29,233
Convertible securities	32,847	34,480
Fixed income securities	44,839	14,924
Municipal securities:		
Taxable securities	137,158	231,999
Tax-exempt securities	464,718	209,317
Short-term securities	109,947	47,387
Asset-backed securities	89,915	61,830
U.S. government agency securities	234,114	118,387
U.S. government securities	7,114	8,266
Derivative contracts	40,795	41,758
	<u>\$ 1,186,696</u>	<u>\$ 797,581</u>
<b>Financial instruments and other inventory positions sold, but not yet purchased:</b>		
Corporate securities:		
Equity securities	\$ 18,916	\$ 33,737
Convertible securities	1,730	3,118
Fixed income securities	21,361	12,621
Municipal securities:		
Tax-exempt securities	26	3,270
Short-term securities	-	145
Asset-backed securities	696	11,333
U.S. government agency securities	34,798	37,903
U.S. government securities	200,027	195,662
Derivative contracts	4,903	5,715
	<u>\$ 282,457</u>	<u>\$ 303,504</u>

At June 30, 2012 and December 31, 2011, financial instruments and other inventory positions owned in the amount of \$782.4 million and \$405.9 million, respectively, had been pledged as collateral for repurchase agreements, short-term financings and to the prime broker of the Company's municipal bond funds.

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

#### **Derivative Contract Financial Instruments**

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

*Customer matched-book derivatives:* The Company enters into interest rate derivative contracts in a principal capacity as a dealer to satisfy the financial needs of its customers. The Company simultaneously enters into an interest rate derivative contract with a third

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party for the same notional amount to hedge the interest rate and credit risk of the initial client interest rate derivative contract. In certain limited instances, the Company has only hedged interest rate risk with a third party, and retains uncollateralized credit risk as described below. The instruments use interest rates based upon either the London Interbank Offer Rate ("LIBOR") index or the Securities Industry and Financial Markets Association ("SIFMA") index.

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

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

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

(Dollars in thousands)

<u>Transaction Type or Hedged Security</u>	<u>Derivative Category</u>	<u>June 30, 2012</u>	<u>December 31, 2011</u>
Customer matched-book	Interest rate derivative contract	\$ 5,740,300	\$ 5,848,530
Trading securities	Interest rate derivative contract	266,250	99,750
Trading securities	Credit default swap index contract	173,900	188,000
		<u>\$ 6,180,450</u>	<u>\$ 6,136,280</u>

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

(Dollars in thousands)

<u>Derivative Category</u>	<u>Operations Category</u>	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
		<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Interest rate derivative contract	Investment banking	\$ (864)	\$ (2,798)	\$ (1,605)	\$ (3,345)
Interest rate derivative contract	Institutional brokerage	(5,414)	(6,059)	(3,269)	(7,306)
Credit default swap index contract	Institutional brokerage	1,271	45	360	(60)
Foreign currency forward contract	Other operating expenses	-	-	-	59
		<u>\$ (5,007)</u>	<u>\$ (8,812)</u>	<u>\$ (4,514)</u>	<u>\$ (10,652)</u>

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

(Dollars in thousands)

<u>Derivative Category</u>	<u>Financial Condition Location</u>	<u>Asset Value at June 30, 2012</u>	<u>Financial Condition Location</u>	<u>Liability Value at June 30, 2012</u>
Interest rate derivative contract	Financial instruments and other inventory positions owned	\$ 649,374	Financial instruments and other inventory positions sold, but not yet purchased	\$ 628,599
Credit default swap index contract	Financial instruments and other inventory positions owned	1,563	Financial instruments and other inventory positions sold, but not yet purchased	730
		<u>\$ 650,937</u>		<u>\$ 629,329</u>

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

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

Credit risk associated with the Company's derivatives is the risk that a derivative counterparty will not perform in accordance with the terms of the applicable derivative contract. Credit exposure associated with the Company's derivatives is driven by uncollateralized market movements in the fair value of the contracts with counterparties and is monitored regularly by the Company's financial risk committee. The Company considers counterparty credit risk in determining derivative contract fair value. The majority of the Company's derivative contracts are substantially collateralized by its counterparties, who are major financial institutions. The

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Company has a limited number of counterparties who are not required to post collateral. Based on market movements, the uncollateralized amounts representing the fair value of the derivative contract can become material, exposing the Company to the credit risk of these counterparties. As of June 30, 2012, the Company had \$36.2 million of uncollateralized credit exposure with these counterparties (notional contract amount of \$204.2 million), including \$19.6 million of uncollateralized credit exposure with one counterparty.

### **Note 5 Fair Value of Financial Instruments**

Based on the nature of the Company's business and its role as a "dealer" in the securities industry, the fair values of its financial instruments are determined internally. The Company's processes are designed to ensure that the fair values used for financial reporting are based on observable inputs wherever possible. In the event that observable inputs are not available, unobservable inputs are developed based on an evaluation of all relevant empirical market data, including prices evidenced by market transactions, interest rates, credit spreads, volatilities and correlations and other security-specific information. Valuation adjustments related to illiquidity or counterparty credit risk are also considered. In estimating fair value, the Company may utilize information provided by third-party pricing vendors to corroborate internally-developed fair value estimates.

The Company employs specific control processes to determine the reasonableness of the fair value of its financial instruments. The Company's processes are designed to ensure that the internally estimated fair values are accurately recorded and that the data inputs and the valuation techniques used are appropriate, consistently applied, and that the assumptions are reasonable and consistent with the objective of determining fair value. Individuals outside of the trading departments perform independent pricing verification reviews as of each reporting date. The Company has established parameters which set forth when securities are independently verified. The selection parameters are generally based upon the type of security, the level of estimation risk of a security, the materiality of the security to the Company's financial statements, changes in fair value from period to period, and other specific facts and circumstances of the Company's securities portfolio. In evaluating the initial internally-estimated fair values made by the Company's traders, the nature and complexity of securities involved (e.g., term, coupon, collateral, and other key drivers of value), level of market activity for securities, and availability of market data are considered. The independent price verification procedures include, but are not limited to, analysis of trade data (both internal and external where available), corroboration to the valuation of positions with similar characteristics, risks and components, or comparison to an alternative pricing source, such as a discounted cash flow model. The Company's valuation committee, comprised of members of senior management, provides oversight and overall responsibility for the internal control processes and procedures related to fair value measurements.

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**

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

*Equity securities* – Exchange traded equity securities are valued based on quoted prices from the exchange for identical assets or liabilities as of the period-end date. To the extent these securities are actively traded and valuation adjustments are not applied, they are categorized as Level I. Non-exchange traded equity securities (principally hybrid preferred securities) are measured primarily using broker quotations, prices observed for recently executed market transactions and internally-developed fair value estimates based on observable inputs and are categorized within Level II of the fair value hierarchy.

*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 using model-based

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valuation techniques with observable market inputs, such as specific company stock price and volatility, and unobservable inputs such as option adjusted spreads over the U.S. treasury securities curve. 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, internally-developed fair value estimates based on observable inputs, or broker quotations. Accordingly, these corporate bonds are categorized as Level II. When observable price quotations or certain observable inputs 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 over U.S. treasury securities. Corporate bonds measured using model-based valuation techniques are categorized as Level III.

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

*Tax-exempt municipal securities* – Tax-exempt municipal securities are valued using recently executed observable trades or market price quotations and therefore are generally categorized as Level II. Certain illiquid tax-exempt municipal securities are valued using market data for comparable securities (maturity and sector) and management judgment to infer an appropriate current yield or other model-based valuation techniques deemed appropriate by management based on the specific nature of the individual security and are therefore categorized as Level III.

*Short-term municipal securities* – Short-term municipal securities include auction rate securities, variable rate demand notes, and other short-term municipal securities. Variable rate demand notes and other short-term municipal securities are valued using recently executed observable trades or market price quotations and therefore are generally categorized as Level II. Auction rate securities with limited liquidity are categorized as Level III and are valued using discounted cash flow models with unobservable inputs such as the Company's expectations of recovery rate on the securities.

*Asset-backed securities* – Asset-backed securities are valued using observable trades, when available. Certain asset-backed securities are valued using models where inputs to the model are directly observable in the market, or can be derived principally from or corroborated by observable market data. These asset-backed securities are categorized as Level II. Other asset-backed securities, which are principally collateralized by residential mortgages, have experienced low volumes of executed transactions that results in less observable transaction data. Certain asset-backed securities collateralized by residential mortgages are valued using cash flow models that utilize unobservable inputs including credit default rates, prepayment rates, loss severity and valuation yields. 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 are categorized as Level II. Mortgage bonds include bonds secured by mortgages, mortgage pass-through securities and agency collateralized mortgage-obligation ("CMO") securities. Mortgage pass-through securities and CMO securities are valued using recently executed observable trades or other observable inputs, such as prepayment speeds and therefore are generally categorized as Level II. Mortgage bonds are valued using observable market inputs, such as market yields ranging from 80-135 basis points ("bps") on spreads over U.S. treasury securities, or models based upon prepayment expectations ranging from 400-550 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. The Company does not transact in securities of countries other than the U.S. government.

*Derivatives* – Derivative contracts include interest rate and basis swaps, forward purchase agreements, interest rate locks, futures, credit default swap index contracts and foreign currency forward contracts. These instruments derive their value from underlying assets, reference rates, indices or a combination of these factors. The majority of the Company's interest rate derivative contracts, including both interest rate swaps and interest rate locks, are valued using market standard pricing models based on the net present

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value of estimated future cash flows. The valuation models used do not involve material subjectivity as the methodologies do not entail significant judgment and the pricing inputs are market observable, including contractual terms, yield curves and measures of volatility. These instruments are classified as Level II within the fair value hierarchy. Certain interest rate locks transact in less active markets and were valued using valuation models that used the previously mentioned observable inputs and certain unobservable inputs that required significant judgment, such as the unamortized premium over the MMD curve. These instruments are classified as Level III. The Company's credit default swap index contracts and foreign currency forward contracts are valued using market price quotations and classified as Level II.

### **Investments**

The Company's investments valued at fair value include equity investments in private companies whereby the Company elected the fair value option, investments in public companies and warrants of public or private companies. These investments are included in other assets on the consolidated statements of financial condition. Exchange traded direct equity investments in public companies and registered mutual funds are valued based on quoted prices on active markets and classified as Level I. Company-owned warrants, which have a cashless exercise option, are valued based upon the Black-Scholes option-pricing model and certain unobservable inputs. The Company applies a liquidity discount rate to its warrants in public and private companies. For warrants in private companies, valuation adjustments, based upon management's judgment, are made to account for differences between the measured security and the stock volatility factors of comparable companies. Company-owned warrants are reported as Level III assets.

*Fair Value Option* – The fair value option permits the irrevocable fair value option election on an instrument-by-instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument. The fair value option was elected for certain merchant banking investments at inception to reflect economic events in earnings on a timely basis. At June 30, 2012, \$14.7 million in merchant banking investments, included within other assets on the consolidated statements of financial condition, are accounted for at fair value and are classified as Level III assets. The gains from fair value changes included in earnings as a result of electing to apply the fair value option to certain financial assets were \$1.1 million for the six months ended June 30, 2012.

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The following table summarizes quantitative information about the significant unobservable inputs used in the fair value measurement of the Company's Level III financial instruments as of June 30, 2012:

	Valuation Technique	Unobservable Input	Range	Weighted Average
<b>Assets:</b>				
Financial instruments and other inventory positions owned:				
Corporate securities:				
Convertible securities	Discounted cash flow	Option adjusted spread over U.S. treasury securities curve (1)	440 bps	440 bps
Municipal securities:				
Tax-exempt securities	Discounted cash flow	Debt service coverage ratio (2)	11 - 68%	62.3%
Short-term securities	Discounted cash flow	Expected recovery rate (% of par) (2)	65%	65.0%
Asset-backed securities:				
Collateralized by Residential mortgages	Discounted cash flow	Credit default rates (3)	2 - 12%	6.7%
		Prepayment rates (4)	1 - 11%	3.0%
		Loss severity (3)	62 - 98%	81.6%
		Valuation yields (3)	6 - 10%	8.6%
Derivative contracts:				
Interest rate locks	Discounted cash flow	Unamortized premium over the MMD curve (1)	7 - 12 bps	7.4 bps
Investments:				
Warrants in public and private companies	Black-Scholes option pricing model	Liquidity discount rates (1)	30 - 40%	35.9%
Warrants in private companies	Black-Scholes option pricing model	Stock volatility factors of comparable companies (2)	29 - 274%	75.0%
<b>Liabilities:</b>				
Financial instruments and other inventory positions sold, but not yet purchased:				
Derivative contracts:				
Interest rate locks	Discounted cash flow	Unamortized premium over the MMD curve (1)	13 - 50 bps	29.1 bps

*N/A - Not applicable*

*Sensitivity of the fair value to changes in unobservable inputs:*

- (1) Significant increase/(decrease) in the unobservable input in isolation would result in a significantly lower/(higher) fair value measurement.
- (2) Significant increase/(decrease) in the unobservable input in isolation would result in a significantly higher/(lower) fair value measurement.
- (3) Significant changes in any of these inputs in isolation could result in a significantly different fair value. Generally, a change in the assumption used for credit default rates is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally inverse change in the assumption for valuation yields.
- (4) The potential impact of changes in prepayment rates on fair value is dependent on other security-specific factors, such as the par value and structure. Changes in the prepayment rates may result in directionally similar or directionally inverse changes in fair value depending on whether the security trades at a premium or discount to the par value.

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The following table summarizes the valuation of the Company's financial instruments by pricing observability levels defined in ASC 820 as of June 30, 2012:

<i>(Dollars in thousands)</i>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Counterparty and Cash Collateral Netting (1)</u>	<u>Total</u>
<b>Assets:</b>					
Financial instruments and other inventory positions owned:					
Corporate securities:					
Equity securities	\$ 3,104	\$ 22,145	\$ -	\$ -	\$ 25,249
Convertible securities	-	29,166	3,681	-	32,847
Fixed income securities	-	44,839	-	-	44,839
Municipal securities:					
Taxable securities	-	137,158	-	-	137,158
Tax-exempt securities	-	462,345	2,373	-	464,718
Short-term securities	-	109,553	394	-	109,947
Asset-backed securities	-	44	89,871	-	89,915
U.S. government agency securities	-	234,114	-	-	234,114
U.S. government securities	7,114	-	-	-	7,114
Derivative contracts	-	650,721	216	(610,142)	40,795
Total financial instruments and other inventory positions owned:	<u>10,218</u>	<u>1,690,085</u>	<u>96,535</u>	<u>(610,142)</u>	<u>1,186,696</u>
Cash equivalents	19,091	-	-	-	19,091
Investments	5,334	-	19,864	-	25,198
Total assets	<u>\$ 34,643</u>	<u>\$ 1,690,085</u>	<u>\$ 116,399</u>	<u>\$ (610,142)</u>	<u>\$ 1,230,985</u>
<b>Liabilities:</b>					
Financial instruments and other inventory positions sold, but not yet purchased:					
Corporate securities:					
Equity securities	\$ 18,466	\$ 450	\$ -	\$ -	\$ 18,916
Convertible securities	-	1,730	-	-	1,730
Fixed income securities	-	21,361	-	-	21,361
Municipal securities:					
Tax-exempt securities	-	26	-	-	26
Asset-backed securities	-	696	-	-	696
U.S. government agency securities	-	34,798	-	-	34,798
U.S. government securities	200,027	-	-	-	200,027
Derivative contracts	-	622,250	7,079	(624,426)	4,903
Total financial instruments and other inventory positions sold, but not yet purchased:	<u>\$ 218,493</u>	<u>\$ 681,311</u>	<u>\$ 7,079</u>	<u>\$ (624,426)</u>	<u>\$ 282,457</u>

(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 the Company's financial instruments by pricing observability levels defined in ASC 820 as of December 31, 2011:

<i>(Dollars in thousands)</i>	Level I	Level II	Level III	Counterparty and Cash Collateral Netting (1)	Total
<b>Assets:</b>					
Financial instruments and other inventory positions owned:					
Corporate securities:					
Equity securities	\$ 25,039	\$ 4,194	\$ -	\$ -	\$ 29,233
Convertible securities	-	34,480	-	-	34,480
Fixed income securities	-	12,109	2,815	-	14,924
Municipal securities:					
Taxable securities	-	231,999	-	-	231,999
Tax-exempt securities	-	206,182	3,135	-	209,317
Short-term securities	-	47,212	175	-	47,387
Asset-backed securities	-	8,742	53,088	-	61,830
U.S. government agency securities	-	118,387	-	-	118,387
U.S. government securities	8,266	-	-	-	8,266
Derivative contracts	-	628,121	-	(586,363)	41,758
Total financial instruments and other inventory positions owned:	33,305	1,291,426	59,213	(586,363)	797,581
Cash equivalents	65,690	-	-	-	65,690
Investments	5,159	-	21,341	-	26,500
Total assets	<u>\$ 104,154</u>	<u>\$ 1,291,426</u>	<u>\$ 80,554</u>	<u>\$ (586,363)</u>	<u>\$ 889,771</u>
<b>Liabilities:</b>					
Financial instruments and other inventory positions sold, but not yet purchased:					
Corporate securities:					
Equity securities	\$ 33,495	\$ 242	\$ -	\$ -	\$ 33,737
Convertible securities	-	1,947	1,171	-	3,118
Fixed income securities	-	11,721	900	-	12,621
Municipal securities:					
Tax-exempt securities	-	3,270	-	-	3,270
Short-term securities	-	145	-	-	145
Asset-backed securities	-	11,333	-	-	11,333
U.S. government agency securities	-	37,903	-	-	37,903
U.S. government securities	195,662	-	-	-	195,662
Derivative contracts	-	599,627	3,594	(597,506)	5,715
Total financial instruments and other inventory positions sold, but not yet purchased:	<u>\$ 229,157</u>	<u>\$ 666,188</u>	<u>\$ 5,665</u>	<u>\$ (597,506)</u>	<u>\$ 303,504</u>

(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 \$116.4 million and \$80.6 million, or 9.5 percent and 9.1 percent of financial instruments measured at fair value at June 30, 2012 and December 31, 2011, respectively. Transfers between levels are recognized at the beginning of the reporting period. There were \$0.7 million of transfers of financial assets from Level II to Level III during the three months ended June 30, 2012 related to convertible securities for which no recent trade activity was observed and valuation inputs became unobservable. There were \$4.3 million of transfers of financial assets from Level III to Level II during the three months ended June 30, 2012 related to fixed income securities for which market trades were observed that provided transparency into the valuation of these assets. There were no other transfers between Level I, Level II or Level III for the three months ended June 30, 2012.

There were \$3.2 million of transfers of financial assets from Level II to Level III during the six months ended June 30, 2012 related to convertible securities and fixed income securities for which no recent trade activity was observed and valuation inputs became unobservable. There were \$4.3 million of transfers of financial assets from Level III to Level II during the six months ended June 30, 2012 related to fixed income securities for which market trades were observed that provided transparency into the valuation of these assets. There were \$1.2 million of transfers of financial liabilities from Level III to Level II during the six months ended June 30, 2012 related to convertible securities for which market trades were observed that provided transparency into the valuation of these liabilities. There were no other transfers between Level I, Level II or Level III for the six months ended June 30, 2012.

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The following tables summarize the changes in fair value associated with Level III financial instruments during the three months ended June 30, 2012 and 2011:

<i>(Dollars in thousands)</i>	<b>Balance at March 31, 2012</b>	Purchases	Sales	Transfers in	Transfers out	Realized gains/ (losses) (1)	Unrealized gains/ (losses) (1)	<b>Balance at June 30, 2012</b>
<b>Assets:</b>								
Financial instruments and other inventory positions owned:								
Corporate securities:								
Convertible securities	\$ 2,596	\$ 3,130	\$ (2,152)	\$ 710	\$ -	\$ (40)	\$ (563)	\$ 3,681
Fixed income securities	4,275	-	(11)	-	(4,264)	-	-	-
Municipal securities:								
Tax-exempt securities	3,039	-	(556)	-	-	(190)	80	2,373
Short-term securities	1,930	375	(1,755)	-	-	(945)	789	394
Asset-backed securities	69,747	72,543	(55,499)	-	-	1,953	1,127	89,871
Derivative contracts	2,046	-	(2,289)	-	-	2,289	(1,830)	216
Total financial instruments and other inventory positions owned:	<b>83,633</b>	76,048	(62,262)	710	(4,264)	3,067	(397)	<b>96,535</b>
Investments	20,687	-	(7)	-	-	7	(823)	19,864
Total assets	<b>\$ 104,320</b>	<b>\$ 76,048</b>	<b>\$ (62,269)</b>	<b>\$ 710</b>	<b>\$ (4,264)</b>	<b>\$ 3,074</b>	<b>\$ (1,220)</b>	<b>\$ 116,399</b>
<b>Liabilities:</b>								
Financial instruments and other inventory positions sold, but not yet purchased:								
Derivative contracts	3,495	(6,509)	1,380	-	-	5,129	3,584	7,079
Total financial instruments and other inventory positions sold, but not yet purchased:	<b>\$ 3,495</b>	<b>\$ (6,509)</b>	<b>\$ 1,380</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,129</b>	<b>\$ 3,584</b>	<b>\$ 7,079</b>
<i>(Dollars in thousands)</i>	<b>Balance at March 31, 2011</b>	Purchases	Sales	Transfers in	Transfers out	Realized gains/ (losses) (1)	Unrealized gains/ (losses) (1)	<b>Balance at June 30, 2011</b>
<b>Assets:</b>								
Financial instruments and other inventory positions owned:								
Corporate securities:								
Equity securities	\$ 1,365	\$ -	\$ -	\$ -	\$ (1,365)	\$ -	\$ -	\$ -
Convertible securities	5,073	-	-	-	(1,473)	-	3	3,603
Fixed income securities	96	1,328	(965)	-	-	(1)	1	459
Municipal securities:								
Tax-exempt securities	3,707	513	(21)	-	-	-	(6)	4,193
Short-term securities	175	-	-	-	-	-	-	175
Asset-backed securities	51,062	23,159	(37,985)	-	(1,717)	964	(278)	35,205
Derivative contracts	4,113	-	(2,363)	-	-	2,363	(3,178)	935
Total financial instruments and other inventory positions owned:	<b>65,591</b>	25,000	(41,334)	-	(4,555)	3,326	(3,458)	<b>44,570</b>
Investments	17,900	-	(53)	-	-	53	2,748	20,648
Total assets	<b>\$ 83,491</b>	<b>\$ 25,000</b>	<b>\$ (41,387)</b>	<b>\$ -</b>	<b>\$ (4,555)</b>	<b>\$ 3,379</b>	<b>\$ (710)</b>	<b>\$ 65,218</b>
<b>Liabilities:</b>								
Financial instruments and other inventory positions sold, but not yet purchased:								
Corporate securities:								
Convertible securities	\$ 1,913	\$ -	\$ -	\$ -	\$ (1,913)	\$ -	\$ -	\$ -
Fixed income securities	160	(4,099)	7,158	88	-	(8)	(21)	3,278
Asset-backed securities	3,219	(4,115)	912	-	-	(42)	26	-
Derivative contracts	867	(1,482)	2,142	-	-	(660)	3,518	4,385
Total financial instruments and other inventory positions sold, but not yet purchased:	<b>\$ 6,159</b>	<b>\$ (9,696)</b>	<b>\$ 10,212</b>	<b>\$ 88</b>	<b>\$ (1,913)</b>	<b>\$ (710)</b>	<b>\$ 3,523</b>	<b>\$ 7,663</b>

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

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The following tables summarize the changes in fair value associated with Level III financial instruments during the six months ended June 30, 2012 and 2011:

(Dollars in thousands)	Balance at					Realized gains/ losses (1)	Unrealized gains/ losses (1)	Balance at June 30, 2012
	December 31, 2011	Purchases	Sales	Transfers in	Transfers out			
<b>Assets:</b>								
Financial instruments and other inventory positions owned:								
Corporate securities:								
Convertible securities	\$ -	\$ 3,130	\$ (2,152)	\$ 2,960	\$ -	\$ (40)	\$ (217)	\$ 3,681
Fixed income securities	2,815	38,433	(37,149)	226	(4,263)	49	(111)	-
Municipal securities:								
Tax-exempt securities	3,135	1,550	(1,896)	-	-	(571)	155	2,373
Short-term securities	175	3,075	(1,755)	-	-	(945)	(156)	394
Asset-backed securities	53,088	171,775	(139,440)	-	-	1,596	2,852	89,871
Derivative contracts	-	-	(2,289)	-	-	2,289	216	216
Total financial instruments and other inventory positions owned:	59,213	217,963	(184,681)	3,186	(4,263)	2,378	2,739	96,535
Investments	21,341	-	(10)	-	-	10	(1,477)	19,864
Total assets	\$ 80,554	\$ 217,963	\$ (184,691)	\$ 3,186	\$ (4,263)	\$ 2,388	\$ 1,262	\$ 116,399

### Liabilities:

Financial instruments and other inventory positions sold, but not yet purchased:

Corporate securities:								
Convertible securities	\$ 1,171	\$ -	\$ -	\$ -	\$ (1,171)	\$ -	\$ -	\$ -
Fixed income securities	900	(897)	-	-	-	(49)	46	-
Derivative contracts	3,594	(9,420)	1,380	-	-	8,040	3,485	7,079
Total financial instruments and other inventory positions sold, but not yet purchased:	\$ 5,665	\$ (10,317)	\$ 1,380	\$ -	\$ (1,171)	\$ 7,991	\$ 3,531	\$ 7,079

(Dollars in thousands)	Balance at					Realized gains/ losses (1)	Unrealized gains/ losses (1)	Balance at June 30, 2011
	December 31, 2010	Purchases	Sales	Transfers in	Transfers out			
<b>Assets:</b>								
Financial instruments and other inventory positions owned:								
Corporate securities:								
Equity securities	\$ 1,340	\$ -	\$ (1,467)	\$ -	\$ -	\$ 127	\$ -	\$ -
Convertible securities	2,885	-	-	3,572	(2,885)	-	31	3,603
Fixed income securities	6,268	21,122	(27,048)	-	-	97	20	459
Municipal securities:								
Tax-exempt securities	6,118	513	(6,127)	3,791	-	(3)	(99)	4,193
Short-term securities	125	50	-	-	-	-	-	175
Asset-backed securities	45,170	65,833	(75,775)	-	-	216	(239)	35,205
Derivative contracts	4,665	2,141	(2,363)	-	-	222	(3,730)	935
Total financial instruments and other inventory positions owned:	66,571	89,659	(112,780)	7,363	(2,885)	659	(4,017)	44,570
Investments	9,682	8,555	(693)	-	-	693	2,411	20,648
Total assets	\$ 76,253	\$ 98,214	\$ (113,473)	\$ 7,363	\$ (2,885)	\$ 1,352	\$ (1,606)	\$ 65,218

### Liabilities:

Financial instruments and other inventory positions sold, but not yet purchased:

Corporate securities:								
Convertible securities	\$ 1,777	\$ -	\$ -	\$ -	\$ (1,777)	\$ -	\$ -	\$ -
Fixed income securities	2,323	(6,205)	7,156	-	-	(33)	37	3,278
Asset-backed securities	2,115	(2,131)	-	-	-	75	(59)	-
Derivative contracts	339	(1,482)	-	-	-	1,482	4,046	4,385
Total financial instruments and other inventory positions sold, but not yet purchased:	\$ 6,554	\$ (9,818)	\$ 7,156	\$ -	\$ (1,777)	\$ 1,524	\$ 4,024	\$ 7,663

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

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

### **Note 6** *Variable Interest Entities*

In the normal course of business, the Company periodically creates or transacts with entities that are investment vehicles organized as partnerships or limited liability companies. These entities were established for the purpose of investing in securities of public or private companies, or municipal debt obligations and were initially financed through the capital commitments of the members. The Company has investments in and/or acts as the managing partner of these entities. In certain instances, the Company provides management and investment advisory services for which it earns fees generally based upon the market value of assets under management and may include incentive fees based upon performance. At June 30, 2012, the Company's aggregate investment in these investment vehicles totaled \$74.4 million and is recorded in other assets on the consolidated statements of financial condition. The Company's remaining capital commitments to these entities was \$56.4 million at June 30, 2012.

Variable interest entities ("VIEs") are entities in which equity investors lack the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities. The determination as to whether an entity is a VIE is based on the amount and nature of the members' equity investment in the entity. The Company also considers other characteristics such as the power through voting rights or similar rights to direct the activities of an entity that most significantly impact the entity's economic performance. For those entities that meet the deferral provisions defined by FASB ASU No. 2010-10, "Consolidation: Amendments for Certain Investment Funds," ("ASU 2010-10"), the Company considers characteristics such as the ability to influence the decision making about the entity's activities and how the entity is financed. The Company has identified certain of the entities described above as VIEs. These VIEs had net assets approximating \$0.9 billion at June 30, 2012. The Company's exposure to loss from these VIEs is \$6.6 million, which is the carrying value of its capital contributions recorded in other assets on the consolidated statements of financial condition at June 30, 2012. The Company had no liabilities related to these VIEs at June 30, 2012.

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. The Company determined it is not the primary beneficiary of these VIEs and accordingly does not consolidate them. Furthermore, the Company has not provided financial or other support to these VIEs that it was not previously contractually required to provide as of June 30, 2012.

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

Amounts receivable from brokers, dealers and clearing organizations included:

	<b>June 30, 2012</b>	<b>December 31, 2011</b>
<i>(Dollars in thousands)</i>		
Receivable arising from unsettled securities transactions	\$ 60,569	\$ 279
Deposits paid for securities borrowed	42,273	46,298
Receivable from clearing organizations	6,846	20,453
Deposits with clearing organizations	31,150	31,061
Securities failed to deliver	8,092	23,140
Other	6,211	3,430
	<u>\$ 155,141</u>	<u>\$ 124,661</u>

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Amounts payable to brokers, dealers and clearing organizations included:

<i>(Dollars in thousands)</i>	June 30, 2012	December 31, 2011
Payable arising from unsettled securities transactions, net	\$ 131,912	\$ 29,005
Payable to clearing organizations	7,616	3,064
Securities failed to receive	20,808	1,402
Other	12,458	1,965
	<u>\$ 172,794</u>	<u>\$ 35,436</u>

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

**Note 8 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. The Company will also use an unaffiliated third party custodian to administer the underlying collateral for certain of its repurchase agreements and short-term financing to mitigate risk.

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 \$174.1 million and \$221.9 million at June 30, 2012 and December 31, 2011, respectively, of which \$146.8 million and \$196.9 million, respectively, had been pledged or otherwise transferred to satisfy its commitments under financial instruments and other inventory positions sold, but not yet purchased.

The following is a summary of the Company's securities sold under agreements to repurchase ("Repurchase Liabilities"), the fair market value of related collateral pledged and the interest rate charged by the Company's counterparty, which is based on LIBOR plus an applicable margin, as of June 30, 2012:

<i>(Dollars in thousands)</i>	Repurchase Liabilities	Fair Market Value	Interest Rate
<b>Overnight maturities:</b>			
Municipal securities:			
Tax-exempt securities	\$ 39,979	\$ 48,005	1.07%
Short-term securities	10,021	12,027	1.07%
<b>On demand maturities:</b>			
Corporate securities:			
Fixed income securities	3,289	3,471	0.65%
U.S. government agency securities	104,276	106,965	0.40 - 0.50%
	<u>\$ 157,565</u>	<u>\$ 170,468</u>	

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**Note 9 Other Assets**

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

<i>(Dollars in thousands)</i>	<b>June 30, 2012</b>	<b>December 31, 2011</b>
Net deferred income tax assets	\$ 29,031	\$ 45,080
Investments at fair value	25,198	26,500
Investments at cost	26,506	25,672
Investments accounted for under the equity method	18,752	16,157
Income tax receivables	6,566	-
Prepaid expenses	6,585	6,036
Other	1,966	1,858
Total other assets	<u>\$ 114,604</u>	<u>\$ 121,303</u>

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

At June 30, 2012, the estimated fair market value of investments carried at cost totaled \$37.1 million. The estimated fair value of investments was measured using discounted cash flow models that utilize market data for comparable companies (e.g., multiples of revenue and earnings before interest, taxes, depreciation and amortization (EBITDA)). As valuation adjustments, based upon management's judgment, were made to account for differences between the measured security and comparable securities, these investments would be categorized as Level III in the fair value hierarchy.

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

**Note 10 Goodwill and Intangible Assets**

The following table presents the changes in the carrying value of goodwill and intangible assets for the six months ended June 30, 2012:

<i>(Dollars in thousands)</i>	<b>Asset Management</b>	
<b>Goodwill</b>		
<b>Balance at December 31, 2011</b>	\$	202,352
Goodwill acquired		-
Impairment charge		-
<b>Balance at June 30, 2012</b>	<u>\$</u>	<u>202,352</u>
<b>Intangible assets</b>		
<b>Balance at December 31, 2011</b>	\$	51,304
Amortization of intangible assets		(3,834)
<b>Balance at June 30, 2012</b>	<u>\$</u>	<u>47,470</u>

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[Table of Contents](#)**Note 11 Short-Term Financing**

The following is a summary of short-term financing and the weighted average interest rate on borrowings:

	<b>Outstanding Balance</b>		<b>Weighted Average</b>	<b>Interest Rate as of</b>
	<b>June 30, 2012</b>	<b>December 31, 2011</b>	<b>June 30, 2012</b>	<b>December 31, 2011</b>
<i>(Dollars in thousands)</i>				
Bank lines (secured)	\$ 48,000	\$ -	1.50%	N/A
Prime broker arrangement	120,306	2,526	1.02%	1.04%
Commercial paper (secured)	260,357	166,175	1.79%	1.37%
Total short-term financing	<u>\$ 428,663</u>	<u>\$ 168,701</u>		

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

The Company's committed short-term bank line financing at June 30, 2012 consisted of a \$250 million committed revolving credit facility with U.S. Bank, N.A., which was renewed in December 2011. Advances under this facility are secured by certain marketable securities. The facility includes a covenant that requires the Company's U.S. broker dealer subsidiary to maintain a minimum net capital of \$130 million, and the unpaid principal amount of all advances under this facility will be due on December 28, 2012. The Company pays a nonrefundable commitment fee on the unused portion of the facility on a quarterly basis.

The Company's uncommitted secured lines at June 30, 2012 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 an arrangement to obtain financing by another broker dealer at the end of each business day related specifically to its convertible inventory.

The Company has also established an arrangement to obtain financing with a prime broker related to its municipal bond funds. Financing under this arrangement is secured by certain securities, primarily municipal securities, and collateral limitations could reduce the amount of funding available under this arrangement. The funding is at the discretion of the prime broker.

The Company issues secured commercial paper to fund a portion of its securities inventory. The senior secured commercial paper notes ("Series A CP Notes") are secured by the Company's securities inventory with maturities on the Series A CP Notes ranging from 27 days to 270 days from the date of issuance. The Series A CP Notes are interest bearing or sold at a discount to par with an interest rate based on LIBOR plus an applicable margin.

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[Table of Contents](#)**Note 12 Bank Syndicated Financing**

The following is a summary of bank syndicated financing and the weighted average interest rate on borrowings:

	Outstanding Balance		Weighted Average Interest Rate as of	
	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011
<i>(Dollars in thousands)</i>				
Term loan	\$ 63,619	\$ 90,000	3.00%	3.05%
Revolving credit facility	25,000	25,000	3.00%	3.05%
Total bank syndicated financing	\$ 88,619	\$ 115,000		

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

<i>(Dollars in thousands)</i>		
Remainder of 2012	\$	10,262
Due in 2013		53,357
	\$	63,619

The interest rate for borrowing under the Credit Agreement is, at the option of the Company, equal to LIBOR or a base rate, plus an applicable margin, adjustable and payable quarterly at a minimum. The base rate is defined as the highest of the Agent's prime lending rate, the Federal Funds Rate plus 0.50 percent or one-month LIBOR plus 1.00 percent. The applicable margin varies from 1.50 percent to 3.00 percent and is based on the Company's leverage ratio. The aggregate debt issuance costs are recognized as additional interest expense over the three-year life under the effective yield interest expense method. Based on our current leverage ratio and aggregate debt issuance costs, the Company expects the annual all in rate to be approximately 4.53 percent. In addition, the Company also pays a nonrefundable commitment fee of 0.50 percent on the unused portion of the revolving credit facility on a quarterly basis.

The Company's Credit Agreement is recorded at amortized cost. As of June 30, 2012, the carrying value of the Credit Agreement approximates fair value.

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

The Credit Agreement includes covenants that, among other things, limit the Company's leverage ratio, require maintenance of certain levels of cash and regulatory net capital, require the Company's asset management segment to achieve minimum earnings before interest, taxes, depreciation and amortization, and impose certain limitations on the Company's ability to make acquisitions and to repurchase or declare dividends on its capital stock. The Credit Agreement limits annual share repurchases to the amount of new equity granted during that fiscal year. The agreement was amended in 2012 to allow for an additional \$25 million in shares to be repurchased in 2012. The Company completed its share repurchasing activity under this amended provision in the second quarter of 2012. With respect to the net capital covenant, the Company's U.S. broker dealer subsidiary is required to maintain minimum net capital of \$135 million. At June 30, 2012, the Company was in compliance with all covenants.

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### **Note 13 Contingencies and Commitments**

#### **Legal Contingencies**

The Company has been named as a defendant in various legal actions, including complaints and litigation and arbitration claims, arising from its business activities. Such actions include claims related to securities brokerage and investment banking activities, and certain class actions that primarily allege violations of securities laws and seek unspecified damages, which could be substantial. Also, the Company is involved from time to time in investigations and proceedings by governmental agencies and self-regulatory organizations which could result in adverse judgments, settlement, penalties, fines or other relief.

The Company has established reserves for potential losses that are probable and reasonably estimable that may result from pending and potential legal actions, investigations and regulatory proceedings. In many cases, however, it is inherently difficult to determine whether any loss is probable or even possible or to estimate the amount or range of any potential loss, particularly where proceedings may be in relatively early stages or where plaintiffs are seeking substantial or indeterminate damages. Matters frequently need to be more developed before a loss or range of loss can reasonably be estimated.

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

The Company has a contingency as to which management of the Company believes that a material loss is reasonably possible. The U.S. Department of Justice Antitrust Division, the SEC and various state attorneys general are conducting broad investigations of numerous firms, including the Company, for possible antitrust and securities violations in connection with the bidding or sale of guaranteed investment contracts and derivatives to municipal issuers from the early 1990s to date. These investigations commenced in November 2006. In addition, several class action complaints have been brought on behalf of a proposed class of government entities that purchased municipal derivatives. The complaints allege antitrust violations and are pending in the U.S. District Court for the Southern District of New York under the multi-district litigation rules. Several California municipalities also have brought separate class action complaints in California federal court, and approximately 18 California municipalities have filed individual lawsuits that are not as part of class actions, all of which have been transferred to the Southern District of New York and consolidated for pretrial purposes. 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. Management is currently unable to estimate a range of reasonably possible loss for these matters because alleged damages have not been specified, the proceedings remain in the early stages, there is uncertainty as to the likelihood of a class or classes being certified or the ultimate size of any class if certified, and there are significant factual issues to be resolved.

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[Table of Contents](#)**Operating Lease Commitments**

The Company leases office space throughout the United States and in a limited number of foreign countries where the Company's international operations reside. Aggregate minimum lease commitments under operating leases as of June 30, 2012 are as follows:

*(Dollars in thousands)*

Remainder of 2012	\$	7,474
2013		14,235
2014		11,681
2015		10,421
2016		9,860
Thereafter		41,957
	\$	<u>95,628</u>

**Note 14 Restructuring**

In the second quarter of 2012, the Company implemented certain expense reduction measures to better align its cost infrastructure with its revenues. During the three months ended June 30, 2012, the Company incurred a pre-tax restructuring-related charge of \$3.6 million. The charge resulted from severance benefits of \$2.4 million and from the reduction of leased office space of \$1.2 million.

**Note 15 Shareholders' Equity****Share Repurchases**

In the third quarter of 2010, the Company's board of directors authorized the repurchase of up to \$75.0 million in common shares through September 30, 2012. During the six months ended June 30, 2012, the Company repurchased 1,488,881 shares of the Company's common stock at an average price of \$22.48 per share for an aggregate purchase price of \$33.5 million related to this authorization. The Company has \$17.9 million remaining under this authorization. The Company also purchases shares of common stock from restricted stock award recipients upon the award vesting as recipients sell shares to meet their employment tax obligations. During the six months ended June 30, 2012, the Company purchased 373,843 shares or \$8.8 million of the Company's common stock for this purpose.

The Company's three-year bank syndicated credit facility includes a covenant that limits the annual amount of shares the Company can repurchase to the amount of equity granted in conjunction with the Company's annual equity compensation awards. The bank syndicated credit facility also allowed for an additional \$25 million in shares to be repurchased in 2012. As of June 30, 2012, the Company had completed its repurchasing activity under these provisions.

**Issuance of Shares**

During the six months ended June 30, 2012, the Company issued 165,241 common shares out of treasury stock in fulfillment of \$3.8 million in obligations under the Piper Jaffray Companies Retirement Plan and issued 768,251 common shares out of treasury stock as a result of employee vesting and exercise transactions. During the six months ended June 30, 2011, the Company issued 90,085 common shares out of treasury stock in fulfillment of \$3.8 million in obligations under the Piper Jaffray Companies Retirement Plan and issued 1,113,592 common shares out of treasury stock as a result of employee vesting and exercise transactions.

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[Table of Contents](#)**Note 16 Noncontrolling Interests**

The consolidated financial statements include the accounts of Piper Jaffray Companies, its wholly owned subsidiaries and other entities in which the Company has a controlling financial interest. Noncontrolling interests represent equity interests in consolidated entities that are not attributable, either directly or indirectly, to Piper Jaffray Companies. Noncontrolling interests include the minority equity holders' proportionate share of the equity in a municipal bond fund of \$32.7 million and private equity investment vehicles aggregating \$5.8 million as of June 30, 2012.

Ownership interests in entities held by parties other than the Company's common shareholders are presented as noncontrolling interests within shareholders' equity, separate from the Company's own equity. Revenues, expenses and net income or loss are reported on the consolidated statements of operations on a consolidated basis, which includes amounts attributable to both the Company's common shareholders and noncontrolling interests. Net income or loss is then allocated between the Company and noncontrolling interests based upon their relative ownership interests. Net income applicable to noncontrolling interests is deducted from consolidated net income to determine net income applicable to the Company. There was no other comprehensive income or loss attributed to noncontrolling interests for the six months ended June 30, 2012.

The following table summarizes the changes in common shareholders' equity attributable to the Company and equity attributable to noncontrolling interests for the six months ended June 30, 2012:

	<b>Common Shareholders' Equity</b>	<b>Noncontrolling Interests</b>	<b>Total Shareholders' Equity</b>
<i>(Dollars in thousands)</i>			
<b>Balance at December 31, 2011</b>	<b>\$ 718,391</b>	<b>\$ 32,209</b>	<b>\$ 750,600</b>
Net income	9,780	2,006	11,786
Amortization/issuance of restricted stock	13,443	-	13,443
Other comprehensive income	9	-	9
Repurchase of common stock through share repurchase program	(33,468)	-	(33,468)
Repurchase of common stock for employee tax withholding	(8,823)	-	(8,823)
Issuance of treasury shares for 401k match	3,814	-	3,814
Shares reserved to meet deferred compensation obligations	239	-	239
Fund capital contributions	-	4,300	4,300
Fund capital withdrawals	-	(4)	(4)
<b>Balance at June 30, 2012</b>	<b>\$ 703,385</b>	<b>\$ 38,511</b>	<b>\$ 741,896</b>

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[Table of Contents](#)**Note 17 Compensation Plans****Stock-Based Compensation Plans**

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

The following table provides a summary of the Company's outstanding equity awards (in shares or units) as of June 30, 2012:

<b><i>Incentive Plan</i></b>	
Restricted Stock Shares	
Annual grants	1,371,602
Sign-on grants	352,945
Retention grants	45,032
Performance grants	307,820
	<u>2,077,399</u>
<b><i>Inducement Plan</i></b>	
Restricted Stock Shares	87,459
<b>Total restricted stock shares related to compensation</b>	<u>2,164,858</u>
ARI deal consideration (1)	440,915
<b>Total restricted stock shares outstanding</b>	<u><u>2,605,773</u></u>
<b><i>Incentive Plan</i></b>	
Restricted Stock Units	
Leadership grants	214,526
<b><i>Incentive Plan</i></b>	
<b>Stock options outstanding</b>	<u><u>502,045</u></u>

(1) The Company issued restricted stock as part of deal consideration for ARI.

***Incentive Plan***

The Incentive Plan permits the grant of equity awards, including restricted stock, restricted stock units and non-qualified stock options, to the Company's employees and directors for up to 7.0 million shares of common stock (1.2 million shares remain available for future issuance under the Incentive Plan). 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 Incentive Plan provides for accelerated vesting of awards if there is a severance event, a change in control of the Company (as defined in the Incentive Plan), in the event of a participant's death, and at the discretion of the compensation committee of the Company's board of directors.

***Restricted Stock Awards***

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

The Company's Annual Grants are made each year in February. Prior to 2011, Annual Grants had three-year cliff vesting periods. Beginning in 2011, Annual Grants vest ratably over three years in equal installments. The Annual Grants provide for continued vesting after termination of employment, so long as the employee does not violate certain post-termination restrictions set forth in the

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award agreement or any agreements entered into upon termination. The vesting period refers to the period in which post-termination restrictions apply. The Company determined the service inception date precedes the grant date for the Annual Grants, and that the post-termination restrictions do not meet the criteria for an in-substance service condition, as defined by FASB Accounting Standards Codification Topic 718, "Compensation – Stock Compensation" ("ASC 718"). Accordingly, restricted stock granted as part of the Annual Grants is expensed in the one-year period in which those awards are deemed to be earned, which is generally the calendar year preceding the February grant date. For example, the Company recognized compensation expense during fiscal 2011 for its February 2012 Annual Grant. If an equity award related to the Annual Grants is forfeited as a result of violating the post-termination restrictions, the lower of the fair value of the award at grant date or the fair value of the award at the date of forfeiture is recorded within the consolidated statements of operations as a reversal of compensation expense. The Company recorded \$0.5 million and \$3.1 million of forfeitures through compensation and benefits expense for the three months ended June 30, 2012 and 2011, respectively, and \$1.3 million and \$3.2 million for the six months ended June 30, 2012 and 2011, respectively.

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

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

Performance-based restricted stock awards granted in 2008 and 2009 cliff vest upon meeting a specific performance-based metric prior to May 2013. Performance Grants are amortized on a straight-line basis over the period the Company expects the performance target to be met. The performance condition must be met for the awards to vest and total compensation cost will be recognized only if the performance condition is satisfied. The probability that the performance conditions will be achieved and that the awards will vest is reevaluated each reporting period with changes in actual or estimated outcomes accounted for using a cumulative effect adjustment to compensation expense. In 2010, the Company deemed it improbable that the performance condition related to the Performance 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. As of June 30, 2012, we continue to believe it is improbable that the performance condition will be met prior to the expiration of the award.

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

### *Restricted Stock Units*

On May 15, 2012, the Company granted restricted stock units to its leadership team ("Leadership Grants"). The units will vest and convert to shares of common stock at the end of the 36-month performance period only if the Company satisfies predetermined market conditions over the performance period that began on May 15, 2012 and ends on May 14, 2015. Under the terms of the grant, the number of units that will vest and convert to shares will be based on the Company achieving specified market conditions during the performance period as described below. Compensation expense is amortized on a straight-line basis over the three-year requisite service period based on the fair value of the award on the grant date. The market condition must be met for the awards to vest and compensation cost will be recognized regardless if the market condition is satisfied. Employees forfeit unvested share units upon termination of employment with a corresponding reversal of compensation expense.

Up to 50% of the award can be earned based on the Company's total shareholder return relative to members of a predetermined peer group and up to 50% of the award can be earned based on the Company's total shareholder return. The fair value of the award on the grant date was determined using a Monte Carlo simulation, which assumed a risk-free interest rate of 0.38% and expected stock price

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volatility of 47.6%. Because a portion of the award vesting depends on the Company's total shareholder return relative to a peer group, the valuation modeled the performance of the peer group as well as the correlation between the Company and the peer group. The expected stock price volatility assumptions were determined using historical volatility as correlation coefficients can only be developed through historical volatility. The risk-free interest rate was determined based on three-year U.S. Treasury bond yields.

### *Stock Options*

The Company previously granted options to purchase Piper Jaffray Companies common stock to employees and non-employee directors in fiscal years 2004 through 2008. Employee and director options were expensed by the Company on a straight-line basis over the required service period, based on the estimated fair value of the award on the date of grant using a Black-Scholes option-pricing model. As described above pertaining to the Company's Annual Grants of restricted shares, stock options granted to employees were expensed in the calendar year preceding the annual February grant date. For example, the Company recognized compensation expense during fiscal 2007 for its February 2008 option grant. The maximum term of the stock options granted to employees and directors is ten years. The Company has not granted stock options since 2008.

### *Inducement Plan*

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

### *Stock-Based Compensation Activity*

The Company recorded total compensation expense of \$5.5 million and \$9.2 million for the three months ended June 30, 2012 and 2011, respectively, and \$6.2 million and \$18.4 million for the six months ended June 30, 2012 and 2011, respectively, related to employee restricted stock and restricted stock unit awards. Total compensation cost includes year-end compensation for Annual Grants and the amortization of Sign-on, Retention and Leadership Grants, less forfeitures and clawbacks. The tax benefit related to stock-based compensation costs totaled \$2.1 million and \$3.6 million for the three months ended June 30, 2012 and 2011, respectively, and \$2.4 million and \$7.1 million for the six months ended June 30, 2012 and 2011, respectively.

The following table summarizes the changes in the Company's unvested restricted stock (including the unvested restricted stock issued as part of the deal consideration for ARI) under the Incentive Plan and Inducement Plan for the six months ended June 30, 2012:

	<b>Unvested Restricted Stock</b>		<b>Weighted Average Grant Date Fair Value</b>
<b>December 31, 2011</b>	<b>3,152,001</b>	<b>\$</b>	<b>38.79</b>
Granted	635,136		22.89
Vested	(1,125,128)		33.10
Cancelled	(56,236)		35.95
<b>June 30, 2012</b>	<b>2,605,773</b>	<b>\$</b>	<b>37.43</b>

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The following summarizes the changes in the Company's unvested restricted stock units under the Incentive Plan for the six months ended June 30, 2012:

	Unvested Restricted Stock Units		Weighted Average Grant Date Fair Value
<b>December 31, 2011</b>		-	\$ -
Granted		214,526	12.12
Vested		-	-
Cancelled		-	-
<b>June 30, 2012</b>	<b>214,526</b>	<b>\$</b>	<b>12.12</b>

As of June 30, 2012, there was \$12.8 million of total unrecognized compensation cost related to restricted stock and restricted stock units expected to be recognized over a weighted average period of 1.81 years.

The following table summarizes the changes in the Company's outstanding stock options for the six months ended June 30, 2012:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
<b>December 31, 2011</b>	<b>502,623</b>	<b>\$ 44.71</b>	<b>3.9</b>	<b>\$ -</b>
Granted	-	-	-	-
Exercised	-	-	-	-
Cancelled	(578)	39.62	-	-
<b>June 30, 2012</b>	<b>502,045</b>	<b>\$ 44.71</b>	<b>3.4</b>	<b>\$ -</b>
<b>Options exercisable at June 30, 2012</b>	<b>502,045</b>	<b>\$ 44.71</b>	<b>3.4</b>	<b>\$ -</b>

As of June 30, 2012, there was no unrecognized compensation cost related to stock options expected to be recognized over future years.

Cash received from option exercises and the resulting tax benefit realized for the tax deductions from option exercises were immaterial for the six months ended June 30, 2012 and 2011, respectively.

#### Deferred Compensation Plan

The Company established a deferred compensation plan in 2012, which allows eligible employees to elect to receive a portion of the incentive compensation they would otherwise receive in the form of restricted stock or other equity, instead in restricted mutual fund shares ("MFRS Awards") of funds managed by affiliates of the Company. MFRS Awards are awarded to qualifying employees in February of each year, and represent a portion of their compensation for performance in the preceding year similar to the Company's Annual Grants. MFRS Awards vest ratably over three years in equal installments and provide for continued vesting after termination of employment so long as the employee does not violate certain post-termination restrictions set forth in the award agreement or any agreement entered into upon termination. Forfeitures are recorded as a reduction of compensation and benefits expense within the consolidated statements of operations.

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**Note 18 Earnings Per Share**

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
<i>(Amounts in thousands, except per share data)</i>				
Net income applicable to Piper Jaffray Companies	\$ 6,851	\$ 10,694	\$ 9,780	\$ 17,927
Earnings allocated to participating securities (1)	(961)	(1,934)	(1,436)	(3,505)
Net income applicable to Piper Jaffray Companies' common shareholders (2)	<u>\$ 5,890</u>	<u>\$ 8,760</u>	<u>\$ 8,344</u>	<u>\$ 14,422</u>
Shares for basic and diluted calculations:				
Average shares used in basic computation	15,932	15,840	16,002	15,510
Stock options	-	5	-	26
Average shares used in diluted computation	<u>15,932</u>	<u>15,845</u>	<u>16,002</u>	<u>15,536</u>
Earnings per share:				
Basic	\$ 0.37	\$ 0.55	\$ 0.52	\$ 0.93
Diluted	\$ 0.37	\$ 0.55	\$ 0.52	\$ 0.93

(1) Represents the allocation of earnings to participating securities. Losses are not allocated to participating securities. Participating securities include all of the Company's unvested restricted shares. The weighted average participating shares outstanding were 2,598,556 and 3,498,089 for the three months ended June 30, 2012 and 2011, respectively, and 2,754,682 and 3,775,673 for the six months ended June 30, 2012 and 2011, respectively.

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

The anti-dilutive effects from stock options were immaterial for the periods ended June 30, 2012 and 2011.

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**Note 19 Segment Reporting**

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

Reportable segment financial results are as follows:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<i>(Dollars in thousands)</i>				
<b>Capital Markets</b>				
Investment banking				
Financing				
Equities	\$ 13,148	\$ 30,985	\$ 36,591	\$ 55,667
Debt	22,256	18,583	37,025	28,249
Advisory services	15,557	18,134	26,847	31,558
<i>Total investment banking</i>	<b>50,961</b>	<b>67,702</b>	<b>100,463</b>	<b>115,474</b>
Institutional sales and trading				
Equities	17,648	21,341	39,904	47,080
Fixed income	20,664	23,134	49,171	52,323
<i>Total institutional sales and trading</i>	<b>38,312</b>	<b>44,475</b>	<b>89,075</b>	<b>99,403</b>
<i>Other income/(loss)</i>	<b>209</b>	<b>1,029</b>	<b>(1,205)</b>	<b>4,818</b>
Net revenues	89,482	113,206	188,333	219,695
Operating expenses	91,570	100,802	182,565	200,031
Segment pre-tax operating income/(loss)	\$ (2,088)	\$ 12,404	\$ 5,768	\$ 19,664
Segment pre-tax operating margin	N/M	11.0%	3.1%	9.0%
<b>Asset Management</b>				
Management and performance fees				
Management fees	\$ 16,968	\$ 17,985	\$ 34,189	\$ 35,797
Performance fees	218	1,629	642	1,746
<i>Total management and performance fees</i>	<b>17,186</b>	<b>19,614</b>	<b>34,831</b>	<b>37,543</b>
<i>Other income/(loss)</i>	<b>(270)</b>	<b>44</b>	<b>100</b>	<b>315</b>
Net revenues	16,916	19,658	34,931	37,858
Operating expenses (1)	13,175	14,928	26,675	28,854
Segment pre-tax operating income	\$ 3,741	\$ 4,730	\$ 8,256	\$ 9,004
Segment pre-tax operating margin	22.1%	24.1%	23.6%	23.8%
<b>Total</b>				
Net revenues	\$ 106,398	\$ 132,864	\$ 223,264	\$ 257,553
Operating expenses (1)	104,745	115,730	209,240	228,885
Total segment pre-tax operating income	\$ 1,653	\$ 17,134	\$ 14,024	\$ 28,668
Pre-tax operating margin	1.6%	12.9%	6.3%	11.1%

(1) Operating expenses include intangible asset amortization expense of \$1.9 million and \$2.1 million for the three months ended June 30, 2012 and 2011, respectively, and \$3.8 million and \$4.1 million for the six months ended June 30, 2012 and 2011, respectively.

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**Geographic Areas**

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

(Dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net revenues:				
United States	\$ 101,624	\$ 119,826	\$ 214,411	\$ 233,813
Asia	1,589	8,716	3,464	10,908
Europe	3,185	4,322	5,389	12,832
Consolidated	<u>\$ 106,398</u>	<u>\$ 132,864</u>	<u>\$ 223,264</u>	<u>\$ 257,553</u>

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

(Dollars in thousands)	June 30, 2012	December 31, 2011
Long-lived assets:		
United States	\$ 294,806	\$ 317,187
Asia	1,767	2,055
Europe	1,818	1,287
Consolidated	<u>\$ 298,391</u>	<u>\$ 320,529</u>

**Note 20 Net Capital Requirements and Other Regulatory Matters**

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

At June 30, 2012, net capital calculated under the SEC rule was \$157.6 million, and exceeded the minimum net capital required under the SEC rule by \$156.6 million.

The Company's short-term committed credit facility of \$250 million includes a covenant requiring Piper Jaffray to maintain minimum net capital of \$130 million. In addition, the Company's three-year bank syndicated credit facility includes a similar covenant, requiring minimum net capital of \$135 million.

Piper Jaffray Ltd., which is a registered United Kingdom broker dealer, is subject to the capital requirements of the U.K. Financial Services Authority ("FSA"). As of June 30, 2012, Piper Jaffray Ltd. was in compliance with the capital requirements of the FSA.

Piper Jaffray Asia Holdings Limited operates three entities licensed by the Hong Kong Securities and Futures Commission, which are subject to the liquid capital requirements of the Securities and Futures (Financial Resources) Rules promulgated under the Securities and Futures Ordinance. As of June 30, 2012, Piper Jaffray Asia regulated entities were in compliance with the liquid capital requirements of the Hong Kong Securities and Futures Ordinance.

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**Note 21** *Income Taxes*

For the three months ended June 30, 2012, the Company recorded an income tax benefit of \$5.8 million, which primarily resulted from the resolution of an uncertain tax position related to the completion of a state tax audit examination. The Company reversed \$8.5 million of its \$8.9 million balance for unrecognized tax benefits. In addition, the Company reversed \$2.4 million of accrued interest related to this position. In aggregate, the Company recorded a \$7.1 million credit to income tax expense, net of federal income tax.

The Company accounts for unrecognized tax benefits in accordance with the provisions of FASB Accounting Standards Codification Topic 740, "Income Taxes," ("ASC 740") which requires tax reserves to be recorded for uncertain tax positions on the consolidated statements of financial condition. The following table presents the changes in the amount of unrecognized tax benefits for the six months ended June 30, 2012:

*(Dollars in thousands)*

<b>Balance at December 31, 2011</b>	<b>\$</b>	<b>8,915</b>
Additions based on tax positions related to the current year		-
Additions for tax positions of prior years		-
Reductions for tax positions of prior years		(8,463)
Settlements		-
<b>Balance at June 30, 2012</b>	<b>\$</b>	<b>452</b>

The Company's effective income tax rate for the six months ended June 30, 2012 was 16.0 percent, compared to 35.2 percent for the six months ended June 30, 2011. The provision for income taxes for the six months ended June 30, 2012 was unusually low due to the \$7.1 million income tax benefit referenced above, offset in part by accrued income tax expense on operating profits generated from the Company's U.S. entities and the \$3.8 million write-off of deferred tax assets related to equity grants that were forfeited or vested at share prices lower than the grant date share prices in the first half of 2012.

**Note 22** *Subsequent Event*

On July 25, 2012, the Company announced its intention to exit the Hong Kong market by September 30, 2012. The exit will occur through either a liquidation and shut down or sale of the Hong Kong capital markets business.

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

The following information should be read in conjunction with the accompanying unaudited consolidated financial statements and related notes and exhibits included elsewhere in this report. Certain statements in this report may be considered forward-looking. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements. These forward looking statements include, among other things, statements other than historical information or statements of current condition and may relate to our future plans and objectives and results, and also may include our belief regarding the effect of various legal proceedings, as set forth under "Legal Proceedings" in Part I, Item 3 of our Annual Report on Form 10-K for the year ended December 31, 2011 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, 2011, 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, Asia and Europe. We operate through two reportable business segments:

**Capital Markets** – The Capital Markets segment provides institutional sales, trading and research services and investment banking services. Institutional sales, trading and research services focus on the trading of equity and fixed income products with institutions, government and non-profit entities. Revenues are generated through commissions and sales credits earned on equity and fixed income institutional sales activities, net interest revenues on trading securities held in inventory, and profits and losses from trading these securities. 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. Also, the Company generates revenue through strategic trading activities, which focus on municipal bond securities and structured residential mortgages, and merchant banking activities, which involve proprietary debt or equity investments in late stage private companies. As certain of these efforts have matured and an investment process has been developed, the Company has created alternative asset management funds in order to invest firm capital as well as seek capital from outside investors. The Company has created three such funds, one in merchant banking and two in municipal securities. The Company receives management and performance fees for managing the funds.

**Asset Management** – The Asset Management segment provides traditional asset management services with product offerings in equity, master limited partnerships ("MLP") and fixed income securities to institutions and high net worth individuals through proprietary distribution channels. Revenues are generated in the form of management fees and performance fees. The majority of our performance fees, if earned, are generally recognized in the fourth quarter. Revenues are also generated through investments in the private funds or partnerships and registered funds that we manage.

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.

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On July 25, 2012, we announced our intention to exit the Hong Kong market through either a sale or a liquidation and shut-down of our business, by September 30, 2012. As a result of the exit from the Hong Kong market, we expect to realize net cash proceeds of \$13 million to \$18 million due principally to a U.S. tax benefit for the realized loss on the investment in our Hong Kong subsidiaries. The expected cash proceeds are net of restructuring expenses and settlement of contractual liabilities.

Our Hong Kong capital markets business recorded a loss of \$3.9 million and \$6.8 million for the three and six months ended June 30, 2012, respectively, and a loss of \$10.9 million for the year ended December 31, 2011. Operating results related to our Asian operations are expected to be classified as discontinued operations in the third quarter of 2012.

### ***Results for the three and six months ended June 30, 2012***

For the three months ended June 30, 2012, net income applicable to Piper Jaffray Companies was \$6.9 million, or \$0.37 per diluted common share, down from \$10.7 million or \$0.55 per diluted common share for the year-ago period. Results for the three months ended June 30, 2012 included a reversal of a previously accrued uncertain state tax position of \$7.1 million, net of federal tax, (or \$0.39 per diluted share) and a \$2.2 million after-tax (or \$0.12 per diluted share) of restructuring charges. Net revenues for the three months ended June 30, 2012 were \$106.4 million, a decline of 19.9 percent from \$132.9 million reported in the year-ago period, driven primarily by decreased equity financing and institutional brokerage revenues. For the three months ended June 30, 2012, non-compensation expenses increased 8.0 percent to \$38.3 million, compared to \$35.4 million in the second quarter of 2011, due to a \$3.6 million, pre-tax, restructuring charge.

For the six months ended June 30, 2012, our net income applicable to Piper Jaffray Companies was \$9.8 million, or \$0.52 per diluted common share, down from \$17.9 million or \$0.93 per diluted common share for the year-ago period. Net revenues for the six months ended June 30, 2012 were \$223.3 million, down 13.3 percent from \$257.6 million reported in the year-ago period, due to decreased equity financing and institutional brokerage revenues, and a decline in income associated with our merchant banking activities. For the six months ended June 30, 2012, non-compensation expenses decreased 4.2 percent to \$70.1 million, compared with \$73.1 million for the six months ended June 30, 2011.

### ***External Factors Impacting Our Business***

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

Factors that differentiate our business within the financial services industry also may affect our financial results. For example, our business focuses on a middle-market clientele in specific industry sectors. If the business environment for our focus sectors is impacted disproportionately as compared to the economy as a whole, or does not recover on pace with other sectors of the economy, our business and results of operations will be negatively impacted. In addition, our business could be affected differently than overall market trends. Given the variability of the capital markets and securities businesses, our earnings may fluctuate significantly from period to period, and results for any individual period should not be considered indicative of future results.

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

### ***Outlook for the remainder of 2012***

We anticipate that a challenging environment will continue throughout 2012. A number of uncertainties impacting global growth continue to persist, including the European debt crisis and the global economic outlook, which are likely to continue for some time. Concerns about the U.S. budget deficit and the "fiscal cliff" of increasing tax rates and federal spending cuts may escalate as the U.S. national elections and the debt ceiling debate draw near. More positively, however, equity market volatility is near a five-year low and the equity markets have posted positive year-to-date results, which may result in increased U.S. capital markets activity as compared to 2011. This level of activity can change rapidly as economic and market indicators fluctuate. With respect to debt financing revenues, the low interest rate environment resulted in a high level of public finance refinancing activity and solid revenues for the first half of 2012. We expect the municipal underwriting market to continue to recover. We anticipate that interest rates will remain at historically low levels throughout 2012 as uncertainties continue to persist around the U.S. economic recovery, the European debt crisis and global growth. While low interest rates have benefited our debt financing revenue through increased refinancing, the interest rate environment will continue to weigh on the fixed income environment. Lastly, our asset management performance for the remainder of 2012 will continue to be dependent upon equity valuations and our investment performance, which can impact the amount of client inflows and outflows of assets under management.

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**Results of Operations**

*Financial Summary for the Three Months Ended June 30, 2012 and June 30, 2011*

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

	For the Three Months Ended June 30,			As a Percentage of Net Revenues For the Three Months Ended June 30,	
	2012	2011	2012 v2011	2012	2011
<i>(Amounts in thousands)</i>					
<b>Revenues:</b>					
Investment banking	\$ 50,324	\$ 67,062	(25.0) %	47.3 %	50.5 %
Institutional brokerage	32,145	37,800	(15.0)	30.2	28.5
Asset management	17,434	19,640	(11.2)	16.4	14.8
Interest	12,166	13,144	(7.4)	11.5	9.9
Other income	979	2,911	(66.4)	0.9	2.1
Total revenues	113,048	140,557	(19.6)	106.3	105.8
Interest expense	6,650	7,693	(13.6)	6.3	5.8
Net revenues	106,398	132,864	(19.9)	100.0	100.0
<b>Non-interest expenses:</b>					
Compensation and benefits	66,487	80,291	(17.2)	62.5	60.4
Occupancy and equipment	7,653	8,992	(14.9)	7.2	6.8
Communications	5,310	6,203	(14.4)	5.0	4.7
Floor brokerage and clearance	2,088	2,219	(5.9)	2.0	1.7
Marketing and business development	6,262	6,725	(6.9)	5.9	5.1
Outside services	7,873	6,819	15.5	7.4	5.1
Restructuring-related expense	3,642	-	N/M	3.4	-
Intangible asset amortization expense	1,917	2,069	(7.3)	1.8	1.6
Other operating expenses	3,513	2,412	45.6	3.2	1.7
Total non-interest expenses	104,745	115,730	(9.5)	98.4	87.1
<b>Income before income tax expense/(benefit)</b>	<b>1,653</b>	<b>17,134</b>	<b>(90.4)</b>	<b>1.6</b>	<b>12.9</b>
Income tax expense/(benefit)	(5,767)	5,987	N/M	(5.4)	4.5
<b>Net income</b>	<b>7,420</b>	<b>11,147</b>	<b>(33.4)</b>	<b>7.0</b>	<b>8.4</b>
Net income applicable to noncontrolling interests	569	453	25.6	0.6	0.4
<b>Net income applicable to Piper Jaffray Companies</b>	<b>\$ 6,851</b>	<b>\$ 10,694</b>	<b>(35.9) %</b>	<b>6.4 %</b>	<b>8.0 %</b>

*N/M – Not meaningful*

For the three months ended June 30, 2012, we recorded net income applicable to Piper Jaffray Companies of \$6.9 million, which included a reversal of a previously accrued uncertain state income tax position of \$7.1 million, net of federal tax, and a restructuring charge of \$2.2 million, after-tax. Net revenues for the three months ended June 30, 2012 were \$106.4 million, a 19.9 percent decrease from the year-ago period. In the second quarter of 2012, investment banking revenues were \$50.3 million, compared with \$67.1 million in the prior-year period. The decrease in investment banking revenues was primarily driven by lower equity financing revenues resulting from increased uncertainty in the equity capital markets during the second quarter of 2012. For the three months ended June 30, 2012, institutional brokerage revenues decreased 15.0 percent to \$32.1 million, compared with \$37.8 million in the corresponding period in the prior year, driven by lower institutional brokerage revenues in both

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equity and fixed income products. For the three months ended June 30, 2012, asset management fees decreased 11.2 percent to \$17.4 million, compared with \$19.6 million in the second quarter of 2011, due to a decline in management fees resulting from lower equity market values and lower performance fees. In the second quarter of 2012, net interest income was \$5.5 million, essentially flat compared to the prior-year period. For the three months ended June 30, 2012, other income was \$1.0 million, compared with \$2.9 million in the corresponding period in the prior year. The decrease was due to losses recorded on our merchant banking activities, offset in part by higher income associated with firm investments. Non-interest expenses decreased to \$104.7 million for the three months ended June 30, 2012, from \$115.7 million in the corresponding period in the prior year, primarily driven by a decline in compensation and benefits expenses, due to lower net revenues and operating profits, offset in part by a \$3.6 million pre-tax restructuring charge.

### ***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, income associated with the forfeiture of stock-based compensation 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, has a greater impact on our cash position and liquidity than is reflected on our consolidated statements of operations.

For the three months ended June 30, 2012, compensation and benefits expenses decreased 17.2 percent to \$66.5 million from \$80.3 million in the corresponding period in 2011, due to lower net revenues and operating profits. Compensation and benefits expenses as a percentage of net revenues were 62.5 percent for the second quarter of 2012, compared with 60.4 percent for the second quarter of 2011. The higher compensation ratio was driven by the impact of fixed compensation costs on a reduce revenue base.

***Occupancy and Equipment*** – In the second quarter of 2012, occupancy and equipment expenses decreased 14.9 percent to \$7.7 million, compared with \$9.0 million in the corresponding period in 2011. The decrease was primarily attributable to cost savings initiatives.

***Communications*** – Communication expenses include costs for telecommunication and data communication, primarily consisting of expenses for obtaining third-party market data information. For the three months ended June 30, 2012, communication expenses decreased 14.4 percent to \$5.3 million, compared with \$6.2 million for the second quarter of 2011. The decrease was primarily attributable to lower market data service expenses.

***Floor Brokerage and Clearance*** – For the three months ended June 30, 2012, floor brokerage and clearance expenses were \$2.1 million, essentially flat compared with the three months ended June 30, 2011.

***Marketing and Business Development*** – Marketing and business development expenses include travel and entertainment and promotional and advertising costs. In the second quarter of 2012, marketing and business development expenses were \$6.3 million, compared with \$6.7 million for the three months ended June 30, 2011 due to reduced travel expenses.

***Outside Services*** – Outside services expenses include securities processing expenses, outsourced technology functions, outside legal fees and other professional fees. Outside services expenses increased 15.5 percent to \$7.9 million in the second quarter of 2012, compared with \$6.8 million in the corresponding period in 2011, primarily due to increased legal and professional fee expenses.

***Restructuring-Related Expenses*** – In the second quarter of 2012, we recorded a pre-tax restructuring charge of \$3.6 million, consisting of \$2.4 million of employee severance costs and \$1.2 million for the reduction of leased office space, as a measure to better align the Company's cost infrastructure with its revenues.

***Intangible Asset Amortization Expense*** – Intangible asset amortization expense includes the amortization of definite-lived intangible assets consisting of asset management contractual relationships and certain trade names and trademarks. For the three months ended June 30, 2012, intangible asset amortization expense was \$1.9 million, essentially flat compared with the three months ended June 30, 2011.

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*Other Operating Expenses* – Other operating expenses include insurance costs, license and registration fees, expenses related to our charitable giving program and litigation-related expenses, which consist of the amounts we reserve and/or pay out related to legal and regulatory matters. Other operating expenses increased to \$3.5 million in the second quarter of 2012, compared with \$2.4 million in the prior-year period, primarily due to a write-off of an underwriting receivable associated with our Hong Kong capital markets business that was deemed uncollectible in the second quarter of 2012, and higher VAT expense incurred related to our London office.

*Income Taxes* - For the three months ended June 30, 2012, our provision for income taxes was a benefit of \$5.8 million, compared with expense of \$6.0 million in the prior-year period. In the second quarter of 2012, we recorded a reversal of a previously accrued uncertain state income tax position of \$7.1 million, net of federal tax.

### *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 and segment pre-tax operating margin are used to evaluate and measure segment performance by our management team in deciding how to allocate resources and in assessing performance in relation to our competitors. Revenues and expenses directly associated with each respective segment are included in determining segment operating results. 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:

	For the Three Months Ended June 30,		2012 v2011
	2012	2011	
<i>(Dollars in thousands)</i>			
<b>Net revenues</b>			
Capital Markets	\$ 89,482	\$ 113,206	(21.0) %
Asset Management	16,916	19,658	(13.9)
<i>Total net revenues</i>	<u>\$ 106,398</u>	<u>\$ 132,864</u>	<u>(19.9) %</u>
<b>Pre-tax operating income/(loss)</b>			
Capital Markets	\$ (2,088)	\$ 12,404	N/M
Asset Management	3,741	4,730	(20.9)
<i>Total pre-tax operating income</i>	<u>\$ 1,653</u>	<u>\$ 17,134</u>	<u>(90.4) %</u>
<b>Pre-tax operating margin</b>			
Capital Markets	N/M	11.0 %	
Asset Management	22.1 %	24.1 %	
<i>Total pre-tax operating margin</i>	<u>1.6 %</u>	<u>12.9 %</u>	

*N/M – Not meaningful*

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Capital Markets

	For the Three Months Ended June 30,		2012 v2011
	2012	2011	
<i>(Dollars in thousands)</i>			
<b>Net revenues:</b>			
Investment banking			
Financing			
Equities	\$ 13,148	\$ 30,985	(57.6) %
Debt	22,256	18,583	19.8
Advisory services	15,557	18,134	(14.2)
<i>Total investment banking</i>	<u>50,961</u>	<u>67,702</u>	<u>(24.7)</u>
Institutional sales and trading			
Equities	17,648	21,341	(17.3)
Fixed income	20,664	23,134	(10.7)
<i>Total institutional sales and trading</i>	<u>38,312</u>	<u>44,475</u>	<u>(13.9)</u>
<i>Other income</i>	<u>209</u>	<u>1,029</u>	<u>(79.7)</u>
<b>Total net revenues</b>	<u>\$ 89,482</u>	<u>\$ 113,206</u>	<u>(21.0) %</u>
Pre-tax operating income/(loss)	<u>\$ (2,088)</u>	<u>\$ 12,404</u>	<u>N/M</u>
Pre-tax operating margin	<u>N/M</u>	<u>11.0 %</u>	

N/M – Not meaningful

Capital Markets net revenues decreased 21.0 percent to \$89.5 million, compared with \$113.2 million in the second quarter of 2011, as equity financing and institutional sales and trading revenues declined in a challenging operating environment.

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.

In the second quarter of 2012, investment banking revenues decreased 24.7 percent to \$51.0 million compared with \$67.7 million in the corresponding period of the prior year, driven by a decrease in equity financing revenues. For the three months ended June 30, 2012, equity financing revenues decreased to \$13.1 million, compared with \$31.0 million in the prior-year period. In the second quarter of 2012, increased uncertainty in the equity capital markets curtailed equity financing activity industry-wide, particularly initial public offerings. During the second quarter of 2012, we completed 15 equity financings, raising \$1.6 billion in capital (excluding the \$16.0 billion of capital raised from the Facebook initial public offering, on which we had a small co-manager position), compared with 24 equity financings, raising \$6.8 billion for the corresponding period in 2011. Debt financing revenues in the second quarter of 2012 increased 19.8 percent to \$22.3 million, compared with \$18.6 million in the second quarter of 2011, driven

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by strong public finance underwriting activity. In the second quarter of 2012, historically low yields created client refinancing opportunities, which resulted in a 37.3 percent increase in our par value from new issuances. During the second quarter of 2012, we completed 164 public finance issues with a total par value of \$2.6 billion, compared with 151 public finance issues with a total par value of \$1.9 billion during the prior-year period. For the three months ended June 30, 2012, advisory services revenues decreased 14.2 percent to \$15.6 million due to lower European advisory services revenue, partially offset by a higher average fee on transactions. We completed 7 transactions with an aggregate enterprise value of \$2.1 billion during the second quarter of 2012, compared with 9 transactions with an aggregate enterprise value of \$1.1 billion in the second quarter of 2011.

Institutional sales and trading revenues comprise all of the revenues generated through trading activities, which consist of facilitating customer trades and our strategic trading activities in municipal and structured mortgage securities. Also, it includes gains and losses on our investments in the municipal bond funds that we manage. 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.

For the three months ended June 30, 2012, institutional brokerage revenues declined 13.9 percent to \$38.3 million, compared with \$44.5 million in the prior-year period, driven by lower institutional brokerage revenues in both equity and fixed income products. In the second quarter of 2012, equity institutional brokerage revenues decreased to \$17.6 million, compared with \$21.3 million in the corresponding period in 2011. The decrease was primarily attributed to lower U.S. equity client volumes resulting from increased uncertainty in the equity capital markets in the second quarter of 2012. For the three months ended June 30, 2012, fixed income institutional brokerage revenues decreased to \$20.7 million, compared with \$23.1 million in the prior-year period, mainly driven by lower results from the firm's strategic trading activities as a result of credit spreads widening during the quarter. Partially offsetting this decrease was higher revenues generated by our expanded middle market sales group.

Other income includes gains and losses from our merchant banking activities and other firm investments, performance and management fees on the municipal bond funds and interest expense related to long-term funding and a commitment fee on a bank line of credit. For the three months ended June 30, 2012, other income decreased to \$0.2 million, compared with \$1.0 million in the corresponding period in 2011. The decrease was due to losses recorded on our merchant banking activities, offset in part by increased revenues associated with our firm investments.

The Capital Markets segment had a negative operating margin in the second quarter of 2012, compared with 11.0 percent for the corresponding period in the prior year. Excluding the \$3.5 million restructuring charge allocated to the Capital Markets segment, pre-tax operating margin for the second quarter of 2012 was 1.6 percent. The decrease in pre-tax operating margin was driven by a decline in net revenues.

### *Asset Management*

	<b>For the Three Months Ended</b>		<b>2012 v2011</b>
	<b>June 30,</b>		
<i>(Dollars in thousands)</i>	<b>2012</b>	<b>2011</b>	
<b>Net revenues:</b>			
Management fees	\$ 16,968	\$ 17,985	(5.7) %
Performance fees	218	1,629	(86.6)
<i>Total management and performance fees</i>	<b>17,186</b>	19,614	(12.4)
<i>Other income/(loss)</i>	<b>(270)</b>	44	N/M
Net revenues	<b>\$ 16,916</b>	<b>\$ 19,658</b>	<b>(13.9) %</b>
Pre-tax operating income	<b>\$ 3,741</b>	<b>\$ 4,730</b>	<b>(20.9) %</b>
Pre-tax operating margin	<b>22.1 %</b>	<b>24.1 %</b>	

*N/M – Not meaningful*

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Management and performance fee revenues comprise the revenues generated through management and investment advisory services performed for separately managed accounts, registered funds and private funds or partnerships. Fluctuations in financial markets and client asset inflows and outflows have a direct effect on management and performance fee revenues. Management fees are generally based on the level of assets under management ("AUM") measured monthly or quarterly, and an increase or reduction in assets under management, due to market price fluctuations or net client asset flows, will result in a corresponding increase or decrease in management fees. Fees vary with the type of assets managed and the vehicle in which they are managed, with higher fees earned on equity and MLP investments, and lower fees earned on fixed income and cash management products. Performance fees are earned when the investment return on assets under management exceeds certain benchmark targets or other performance targets over a specified measurement period. The level of performance fees earned can vary significantly from period to period and these fees may not necessarily be correlated to changes in total assets under management. The majority of performance fees, if earned, are generally recorded in the fourth quarter of the applicable year or upon withdrawal of client assets. Performance fees, if earned, are recognized as of each reporting date for certain consolidated partnerships.

Total management and performance fee revenues decreased 12.4 percent to \$17.2 million in the second quarter of 2012, compared with \$19.6 million in the second quarter of 2011. The decreases were due to reduced management fee revenue resulting from market depreciation of the underlying assets under management and lower performance fees. Additionally, our average effective revenue yield (total management fees as a percentage of average assets under management) was 53 basis points in the second quarter of 2012, compared to 56 basis points in the corresponding period in the prior-year. The decrease in the average effective revenue yield was attributable to loss of higher yielding equity assets.

Other income/loss includes gains and losses from our investments in registered funds and private funds or partnerships that we manage. For the three months ended June 30, 2012, other income/loss was a loss of \$0.3 million, compared to nominal income recorded in the three months ended June 30, 2011.

Segment pre-tax operating margin for the three months ended June 30, 2012 was 22.1 percent, compared to 24.1 percent for the corresponding period in the prior year. The decreased margin was driven by lower net revenues.

The following table summarizes the changes in our assets under management for the three months ended June 30, 2012:

*(Dollars in millions)*

<b>Assets under management:</b>		
<b>Balance at March 31, 2012</b>	<b>\$</b>	<b>13,228</b>
Net outflows		(185)
Net market depreciation		(302)
<b>Balance at June 30, 2012</b>	<b>\$</b>	<b>12,741</b>

Assets under management decreased \$0.5 billion to \$12.7 billion in the three months ended June 30, 2012. Net market depreciation of \$0.3 billion during the second quarter of 2012 was the result of a decline in equity prices during the quarter. Additionally, we experienced client outflows of approximately \$0.2 billion as existing institutional clients changed investment strategies and reallocated assets.

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*Financial Summary for the Six Months Ended June 30, 2012 and June 30, 2011*

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

	Six Months Ended June 30,			As a Percentage of Net Revenues For the Six Months Ended June 30,	
	2012	2011	2012 v2011	2012	2011
<i>(Amounts in thousands)</i>					
<b>Revenues:</b>					
Investment banking	\$ 99,192	\$ 114,103	(13.1) %	44.4 %	44.3 %
Institutional brokerage	77,476	86,031	(9.9)	34.7	33.5
Asset management	35,339	37,569	(5.9)	15.8	14.6
Interest	23,339	27,373	(14.7)	10.5	10.6
Other income	1,008	8,331	(87.9)	0.5	3.2
Total revenues	236,354	273,407	(13.6)	105.9	106.2
Interest expense	13,090	15,854	(17.4)	5.9	6.2
Net revenues	223,264	257,553	(13.3)	100.0	100.0
<b>Non-interest expenses:</b>					
Compensation and benefits	139,166	155,745	(10.6)	62.3	60.5
Occupancy and equipment	15,533	17,440	(10.9)	7.0	6.8
Communications	11,663	12,814	(9.0)	5.2	5.0
Floor brokerage and clearance	4,308	4,685	(8.0)	1.9	1.8
Marketing and business development	11,383	12,935	(12.0)	5.1	5.0
Outside services	14,013	14,925	(6.1)	6.3	5.8
Restructuring-related expense	3,642	-	N/M	1.6	-
Intangible asset amortization expense	3,834	4,138	(7.3)	1.7	1.6
Other operating expenses	5,698	6,203	(8.1)	2.6	2.4
Total non-interest expenses	209,240	228,885	(8.6)	93.7	88.9
<b>Income before income tax expense</b>	<b>14,024</b>	<b>28,668</b>	<b>(51.1)</b>	<b>6.3</b>	<b>11.1</b>
Income tax expense	2,238	10,102	(77.8)	1.0	3.9
<b>Net income</b>	<b>11,786</b>	<b>18,566</b>	<b>(36.5)</b>	<b>5.3</b>	<b>7.2</b>
Net income applicable to noncontrolling interests	2,006	639	213.9	0.9	0.2
<b>Net income applicable to Piper Jaffray Companies</b>	<b>\$ 9,780</b>	<b>\$ 17,927</b>	<b>(45.4) %</b>	<b>4.4 %</b>	<b>7.0 %</b>

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

For the six months ended June 30, 2012, we recorded net income applicable to Piper Jaffray Companies, of \$9.8 million, which included a reversal of a previously accrued uncertain state income tax position of \$7.1 million, net of federal tax, additional income tax expense of \$3.8 million attributable to the write-off of deferred tax assets related to equity grants that either were forfeited or vested at share prices lower than the grant date share price and a restructuring charge of \$2.2 million, after tax. Net revenues for the six months ended June 30, 2012 were \$223.3 million, a 13.3 percent decrease from the year-ago period. For the six months ended June 30, 2012, investment banking revenues were \$99.2 million, compared with \$114.1 million in the prior-year period. The decrease in investment banking revenues was

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attributable to lower equity financing and advisory services revenues, partially offset by higher debt financing revenues. For the six months ended June 30, 2012, institutional brokerage revenues decreased 9.9 percent to \$77.5 million, compared with \$86.0 million in the corresponding period in the prior year, driven by lower revenues associated with our equity institutional brokerage and strategic trading activities. For the six months ended June 30, 2012, asset management fees decreased 5.9 percent to \$35.3 million, compared with \$37.6 million in the second half of 2012. Net interest income for the first six months of 2012 decreased 11.0 percent to \$10.2 million, compared with \$11.5 million for the first six months of 2011. The decrease was primarily the result of lower interest income earned on lower average net inventory balances. For the six months ended June 30, 2012, other income was \$1.0 million, compared with \$8.3 million in the corresponding period in the prior year. The decrease was due to lower revenues associated with our merchant banking activities and a decline in income associated with our firm investments. Non-interest expenses decreased to \$209.2 million for the six months ended June 30, 2012, from \$228.9 million in the corresponding period in the prior year, due primarily to a decline in compensation and benefits expenses.

### ***Consolidated Non-Interest Expenses***

*Compensation and Benefits* – For the six months ended June 30, 2012, compensation and benefits expenses decreased 10.6 percent to \$139.2 million from \$155.7 million in the corresponding period in 2011. Compensation and benefits expenses as a percentage of net revenues increased to 62.3 percent for the first six months of 2012, compared with 60.5 percent for the first six months of 2011. Compensation and benefits as a percentage of net revenues was lower in the year-ago period as we recorded higher income on our firm investments and merchant banking activities.

*Marketing and Business Development* – For the first six months of 2012, marketing and business development expenses decreased 12.0 percent to \$11.4 million, compared with \$12.9 million in the first half of 2011. In the first half of 2011, we wrote-off travel expenses related to equity investment banking deals that were never completed due to market volatility.

*Outside Services* – Outside services expenses decreased 6.1 percent to \$14.0 million in the second quarter of 2012, compared with \$14.9 million in the corresponding period in 2011, primarily due to lower securities processing expenses.

*Other Operating Expenses* – Other operating expenses decreased 8.1 percent to \$5.7 million for the six months ended June 30, 2012, compared with \$6.2 million in the prior-year period, due to decreased charitable contributions expense as we funded the majority of our 2011 charitable contribution commitment in the first half of 2011. Additionally, we received a business tax refund in the first half of 2012. Partially offsetting this decrease was a write-off of an underwriting receivable associated with our Hong Kong capital markets business that was deemed uncollectible in the second quarter of 2012.

*Income Taxes* - For the six months ended June 30, 2012, our provision for income taxes was \$2.2 million, equating to an effective tax rate of 16.0 percent. In the first half of 2012, we recorded a reversal of a previously accrued uncertain state income tax position of \$7.1 million, net of federal tax, partially offset by a \$3.8 million write-off of deferred tax assets related to equity grants that either were forfeited or vested at share prices lower than the grant date share price. For the six months ended June 30, 2011, our provision for income taxes was \$10.1 million, equating to an effective tax rate of 35.2 percent.

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[Table of Contents](#)**Segment Performance**

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

	Six Months Ended June 30,		2012 v2011
	2012	2011	
<i>(Dollars in thousands)</i>			
<b>Net revenues</b>			
Capital Markets	\$ 188,333	\$ 219,695	(14.3) %
Asset Management	34,931	37,858	(7.7)
<i>Total net revenues</i>	<u>\$ 223,264</u>	<u>\$ 257,553</u>	<u>(13.3) %</u>
<b>Pre-tax operating income</b>			
Capital Markets	\$ 5,768	\$ 19,664	(70.7) %
Asset Management	8,256	9,004	(8.3)
<i>Total pre-tax operating income</i>	<u>\$ 14,024</u>	<u>\$ 28,668</u>	<u>(51.1) %</u>
<b>Pre-tax operating margin</b>			
Capital Markets	3.1 %	9.0 %	
Asset Management	23.6 %	23.8 %	
<i>Total pre-tax operating margin</i>	<b>6.3 %</b>	11.1 %	

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Capital Markets

	Six Months Ended June 30,		2012 v2011
	2012	2011	
<i>(Dollars in thousands)</i>			
<b>Net revenues:</b>			
Investment banking			
Financing			
Equities	\$ 36,591	\$ 55,667	(34.3) %
Debt	37,025	28,249	31.1
Advisory services	26,847	31,558	(14.9)
<i>Total investment banking</i>	<b>100,463</b>	115,474	(13.0)
Institutional sales and trading			
Equities	39,904	47,080	(15.2)
Fixed income	49,171	52,323	(6.0)
<i>Total institutional sales and trading</i>	<b>89,075</b>	99,403	(10.4)
<i>Other income/(loss)</i>	<b>(1,205)</b>	4,818	N/M
<b>Total net revenues</b>	<b>\$ 188,333</b>	<b>\$ 219,695</b>	<b>(14.3) %</b>
Pre-tax operating income	<b>\$ 5,768</b>	<b>\$ 19,664</b>	<b>(70.7) %</b>
Pre-tax operating margin	<b>3.1 %</b>	<b>9.0 %</b>	

N/M – Not meaningful

Capital Markets net revenues decreased 14.3 percent to \$188.3 million for the six months ended June 30, 2012, compared with \$219.7 million in the prior-year period.

For the first half of 2012, investment banking revenues decreased 13.0 percent to \$100.5 million compared with \$115.5 million in the corresponding period of the prior year, due to a decline in equity financing and advisory services revenues, offset by increased debt financing revenues. For the six months ended June 30, 2012, equity financing revenues decreased to \$36.6 million, compared with \$55.7 million in the prior-year period. Increased uncertainty in the equity capital markets, specifically in the second quarter of 2012, curtailed equity financing activity industry-wide, particularly initial public offerings. During the first half of 2012, we completed 37 equity financings, raising \$5.0 billion for our clients (excluding the \$16.0 billion of capital raised from the Facebook initial public offering, on which we had a small co-manager position), compared with 43 equity financings, raising \$9.3 billion for the corresponding period in 2011. Debt financing revenues in the first half of 2012 increased 31.1 percent to \$37.0 million, compared with \$28.2 million in the first half of 2011, due to an increase in public finance revenues. In the six months ended June 30, 2012, historically low yields created client refinancing opportunities, which resulted in a 62.5 percent increase in our par value from new issuances. Additionally, in the first half of 2011, municipal underwriting activity was at historic lows. During the first half of 2012, we completed 303 public finance issues with a total par value of \$4.9 billion, compared with 242 public finance issues with a total par value of \$3.0 billion during the prior-year period. For the six months ended June 30, 2012, advisory services revenues decreased 14.9 percent to \$26.8 million due to lower European advisory services revenue, which was partially offset by increased U.S. advisory services revenue. We completed 13 transactions with an aggregate enterprise value of \$2.8 billion during the first half of 2012, compared with 17 transactions with an aggregate enterprise value of \$2.2 billion in the second half of 2011.

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For the six months ended June 30, 2012, institutional brokerage revenues declined 10.4 percent to \$89.1 million, compared with \$99.4 million in the prior-year period, driven by lower revenues associated with our equity institutional brokerage and strategic trading businesses. In the first half of 2012, equity institutional brokerage revenues decreased to \$39.9 million, compared with \$47.1 million in the corresponding period in 2011. The decrease was primarily attributed to lower U.S. equity client volumes resulting from the uncertain market conditions in the first half of 2012. For the six months ended June 30, 2012, fixed income institutional brokerage revenues decreased to \$49.2 million, compared with \$52.3 million in the prior-year period, as incremental revenues associated with a municipal bond fund were more than offset by lower strategic trading revenues. Partially offsetting this decrease was higher revenues generated by our expanded middle markets sales group.

For the six months ended June 30, 2012, other income/loss was a loss of \$1.2 million, compared with income of \$4.8 million in the corresponding period in 2011. The decrease was due to lower revenues associated with our merchant banking activities offset in part by increased income associated with firm investments.

Capital Markets segment pre-tax operating margin for the six months ended June 30, 2012 was 3.1 percent, compared with 9.0 percent for the corresponding period in the prior year. The decreased margin was driven by lower net revenues.

*Asset Management*

	Six Months Ended June 30,		2012 v2011
	2012	2011	
<i>(Dollars in thousands)</i>			
<b>Net revenues:</b>			
Management fees	\$ 34,189	\$ 35,797	(4.5) %
Performance fees	642	1,746	(63.2)
<i>Total management and performance fees</i>	<b>34,831</b>	37,543	(7.2)
<i>Other income</i>	<b>100</b>	315	(68.3)
Net revenues	<u>\$ 34,931</u>	<u>\$ 37,858</u>	<u>(7.7) %</u>
Pre-tax operating income	<u>\$ 8,256</u>	<u>\$ 9,004</u>	<u>(8.3) %</u>
Pre-tax operating margin	<b>23.6 %</b>	23.8 %	

Total management and performance fees decreased 7.2 percent to \$34.8 million in the first half of 2012, compared with \$37.5 in the first half of 2011 due to a decline in both management and performance fees. Our average effective revenue yield (total management fees as a percentage of average assets under management) was 53 basis points in the first half of 2012, compared to 56 basis points in the corresponding period in the prior-year. The performance fees recorded during the first half of 2012 and 2011 were a result of a withdrawal of client assets.

For the six months ended June 30, 2012, other income was \$0.1 million compared with \$0.3 million for the corresponding period in the prior year.

Segment pre-tax operating margin for the six months ended June 30, 2012 was 23.6 percent, essentially flat compared to the corresponding period in the prior year.

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The following table summarizes the changes in our assets under management for the six months ended June 30, 2012:

*(Dollars in millions)*

<b>Assets under management:</b>		
<b>Balance at December 31, 2011</b>	<b>\$</b>	<b>12,173</b>
Net inflows		273
Net market appreciation		295
<b>Balance at June 30, 2012</b>	<b>\$</b>	<b>12,741</b>

Assets under management increased \$0.6 billion to \$12.7 billion in the six months ended June 30, 2012. Net market appreciation of \$0.3 billion during the first half of 2012 was the result of improved market performance for the equity product offerings in the first quarter of 2012 and positive performance in our fixed income product offerings. We experienced client inflows of approximately \$0.3 billion primarily into our fixed income product offering, offset by client outflows related to our equity product offerings.

### **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, 2011. We believe that of our significant accounting policies, the following are our critical accounting policies.

### ***Valuation of Financial Instruments***

Financial instruments and other inventory positions owned, financial instruments and other inventory positions sold, but not yet purchased, and certain firm investments on our consolidated statements of financial condition consist of financial instruments recorded at fair value, either as required by accounting guidance or through the fair value election. Unrealized gains and losses related to these financial instruments are reflected on our consolidated statements of operations.

The fair value of a financial instrument is the amount at which the instrument could be exchanged in an orderly transaction between market participants. Based on the nature of our business and our role as a "dealer" in the securities industry, the fair value of our financial instruments are determined internally. Our processes are designed to ensure that the fair values used for financial reporting

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are based on observable inputs wherever possible. In the event that observable inputs are not available, unobservable inputs are developed based on an evaluation of all relevant empirical market data, including prices evidenced by market transactions, interest rates, credit spreads, volatilities and correlations and other security-specific information. Valuation adjustments related to illiquidity or counterparty credit risk are also considered. In estimating fair value, we may utilize information provided by third-party pricing vendors to corroborate internally-developed fair value estimates.

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 investments. In instances where a security is subject to transfer restrictions, the value of the security is based primarily on the quoted price of a similar security without restriction but may be reduced by an amount estimated to reflect such restrictions. In addition, even where we derive the value of a security based on information 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 our derivative contracts can be observed or priced using models based on the net present value of estimated future cash flows. Our models generally incorporate inputs that we believe are representative of inputs other market participants would use to determine fair value of the same instruments, including contractual terms, market prices, recovery values, yield curves, credit curves and measures of volatility. The valuation models and underlying assumptions are monitored over the life of the derivative product. If there are any changes necessary in the underlying inputs, the model is updated for those new inputs.

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

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

	Level III	
	June 30, 2012	December 31, 2011
<i>(Dollars in thousands)</i>		
<b>Assets:</b>		
Financial instruments and other inventory positions owned:		
Corporate securities:		
Convertible securities	\$ 3,681	\$ -
Fixed income securities	-	2,815
Municipal securities:		
Tax-exempt securities	2,373	3,135
Short-term securities	394	175
Asset-backed securities	89,871	53,088
Derivative contracts	216	-
Total financial instruments and other inventory positions owned:	<u>96,535</u>	<u>59,213</u>
Investments	19,864	21,341
Total assets	<u>\$ 116,399</u>	<u>\$ 80,554</u>
<b>Liabilities:</b>		
Financial instruments and other inventory positions sold, but not yet purchased:		
Corporate securities:		
Convertible securities	\$ -	\$ 1,171
Fixed income securities	-	900
Derivative contracts	7,079	3,594
Total financial instruments and other inventory positions sold, but not yet purchased:	<u>\$ 7,079</u>	<u>\$ 5,665</u>

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

	Six Months Ended June 30,	
	2012	2011
<i>(Dollars in thousands)</i>		
<b>Assets:</b>		
Purchases	\$ 217,963	\$ 98,214
Sales	(184,691)	(113,473)
Transfers in	3,186	7,363
Transfers out	(4,263)	(2,885)
Realized gains	2,388	1,352
Unrealized gains/(losses)	1,262	(1,606)
<b>Liabilities:</b>		
Purchases	\$ (10,317)	\$ (9,818)
Sales	1,380	7,156
Transfers in	-	-
Transfers out	(1,171)	(1,777)
Realized losses	7,991	1,524
Unrealized losses	3,531	4,024

See Note 5 to our consolidated financial statements for additional discussion of Level III assets and liabilities.

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We employ specific control processes to determine the reasonableness of the fair value of our financial instruments. Our processes are designed to ensure that the internally estimated fair values are accurately recorded and that the data inputs and the valuation techniques used are appropriate, consistently applied, and that the assumptions are reasonable and consistent with the objective of determining fair value. Individuals outside of the trading departments perform independent pricing verification reviews as of each reporting date. We have established parameters which set forth when securities are independently verified. The selection parameters are generally based upon the type of security, the level of estimation risk of a security, the materiality of the security to our financial statements, changes in fair value from period to period, and other specific facts and circumstances of our security portfolio. In evaluating the initial internally-estimated fair values made by our traders, the nature and complexity of securities involved (e.g. term, coupon, collateral, and other key drivers of value), level of market activity for securities, and availability of market data are considered. The independent price verification procedures include, but are not limited to, analysis of trade data (both internal and external where available), corroboration to the valuation of positions with similar characteristics, risks and components, or comparison to an alternative pricing source, such as a discounted cash flow model. We have a valuation committee, comprised of members of senior management, that provides oversight and overall responsibility for the internal control processes and procedures related to fair value measurements.

### *Goodwill and Intangible Assets*

We record all assets and liabilities acquired in purchase acquisitions, including goodwill and other intangible assets, at fair value. Determining the fair value of assets and liabilities acquired requires certain management estimates. At June 30, 2012, we had goodwill of \$202.4 million. This goodwill balance consists of \$152.3 million recorded in 2010 as a result of the acquisition of ARI and \$50.1 million recorded in 2007 as a result of the acquisition of FAMCO.

Under ASC 350, we are required to perform impairment tests of our goodwill and indefinite-life intangible assets annually and on an interim basis when certain events or circumstances exist that could indicate possible impairment. We have elected to test for goodwill impairment in the fourth quarter of each calendar year. Beginning in 2012, we have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, we determine it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if we conclude otherwise, then we are required to perform the two-step impairment test, which requires management to make judgments in determining what assumptions to use in the calculation. The first step of the process consists of estimating the fair value of our reporting units based on the following factors: our market capitalization, a discounted cash flow model using revenue and profit forecasts, public market comparables and multiples of recent mergers and acquisitions of similar businesses. Valuation multiples may be based on revenues, price-to-earnings or cash flows 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.

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We completed our 2011 annual goodwill impairment testing as of November 30, 2011, which resulted in a non-cash goodwill impairment charge of \$120.3 million. The charge related to our capital markets reporting unit and primarily pertained to goodwill created from the 1998 acquisition of our predecessor, Piper Jaffray Companies Inc., and its subsidiaries by U.S. Bancorp, which was retained by us when we spun-off from U.S. Bancorp on December 31, 2003.

Our 2011 annual goodwill impairment testing resulted in no impairment associated with the FAMCO or ARI reporting units, within our asset management operating segment. We also tested the intangible assets (indefinite and definite-lived) acquired as part of the FAMCO and ARI acquisitions and concluded there was no impairment.

In the first quarter of 2012, we reorganized our FAMCO and ARI reporting units, which triggered an interim impairment analysis of our goodwill. We concluded there was no impairment.

### *Compensation Plans*

#### **Stock-Based Compensation Plans**

As part of our compensation to employees and directors, we use stock-based compensation, consisting of restricted stock, restricted stock units and stock options. The Company accounts for equity awards in accordance with ASC 718, which requires all share-based payments to employees, including grants of employee stock options, to be recognized in the consolidated statements of operations at grant date fair value over the service period of the award, net of estimated forfeitures. We grant shares of restricted stock to current employees as part of year-end compensation ("Annual Grants") and as a retention tool. Employees may receive restricted stock with service conditions upon initial hiring or as a retention award ("Sign-on Grants"). We have also granted restricted stock awards with service conditions to key employees ("Retention Grants"), as well as restricted stock awards with performance conditions to members of senior management ("Performance Grants"). On May 15, 2012, we granted restricted stock units with market conditions to our leadership team ("Leadership Grants"). Upon closing of the ARI acquisition in March 2010, we granted restricted stock with service conditions to ARI employees ("Inducement Grants").

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

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

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

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

The Leadership Grants will vest and convert to shares of common stock only if the Company satisfies predetermined market conditions over the performance period beginning May 15, 2012 and ending May 14, 2015. Under the terms of the grant, the number of units that vest and convert to shares will be based on the achievement of specified market conditions during the performance period. Compensation expense is amortized on a straight-line basis over the three-year requisite service period based on the fair value of the award on the grant date. The market conditions must be met for the awards to vest and compensation cost will be recognized regardless if the market conditions are satisfied. Employees forfeit unvested share units upon termination of employment and a reversal of compensation expense is recorded.

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

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

### **Deferred Compensation Plan**

The Company established a deferred compensation plan in 2012, which allows eligible employees to elect to receive a portion of the incentive compensation they would otherwise receive in the form of restricted stock or other equity, instead in restricted mutual fund shares ("MFRS Awards") of funds managed by affiliates of the Company. MFRS Awards are awarded to qualifying employees in February of each year, and represent a portion of their compensation for performance in the preceding year similar to the Company's Annual Grants. MFRS Awards vest ratably over three years in equal installments and provide for continued vesting after termination of employment so long as the employee does not violate certain post-termination restrictions set forth in the award agreement or any agreement entered into upon termination. Forfeitures are recorded as a reduction of compensation and benefits expense within the consolidated statements of operations.

### ***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, established reserves for potential 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.

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### *Income Taxes*

We file a consolidated U.S. federal income tax return, which includes all of our qualifying subsidiaries. We also are subject to income tax in various states and municipalities and those foreign jurisdictions in which we operate. Amounts provided for income taxes are based on income reported for financial statement purposes and do not necessarily represent amounts currently payable. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and for tax loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income taxes are provided for temporary differences in reporting certain items, principally, amortization of share-based compensation. The realization of deferred tax assets is assessed and a valuation allowance is recognized 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. However, if our projections of future taxable profits do not materialize, we may conclude that a valuation allowance is necessary, which would impact our results of operations in that period. As of June 30, 2012, we have a deferred tax asset valuation allowance of \$6.2 million related to our U.K. subsidiary's net operating loss carryforwards, which represents all but \$1.1 million of the U.K. subsidiary's deferred tax asset. We also have a deferred tax asset valuation allowance of \$4.0 million as of June 30, 2012, representing the entire deferred tax asset, related to our Hong Kong subsidiary's net operating loss carryforwards.

We record deferred tax benefits for future tax deductions expected upon the vesting of share-based compensation. If deductions reported on our tax return for share-based compensation (i.e., the value of the share-based compensation at the time of vesting) exceed the cumulative cost of those instruments recognized for financial reporting (i.e., the grant date fair value of the compensation computed in accordance with ASC 718), we record the excess tax benefit as additional paid-in capital. Conversely, if deductions reported on our tax return for share-based compensation are less than the cumulative cost of those instruments recognized for financial reporting, we offset the deficiency first to any previously recognized excess tax benefits recorded as additional paid-in capital and any remaining deficiency is recorded as income tax expense. As of June 30, 2012, we did not have any available excess tax benefits within additional paid-in capital. Approximately 1,000,000 shares of restricted stock vested in the first half of 2012 at values less than the grant date fair value resulting in \$3.8 million of income tax expense in the first half of 2012.

We establish reserves for uncertain income tax positions in accordance with ASC 740 when it is not more likely than not that a certain position or component of a position will be ultimately upheld by the relevant taxing authorities. Significant judgment is required in evaluating uncertain tax positions. Our tax provision and related accruals include the impact of estimates for uncertain tax positions and changes to the reserves that are considered appropriate. To the extent the probable tax outcome of these matters changes, such change in estimate will impact the income tax provision in the period of change and, in turn, our results of operations. In the second quarter of 2012, we recorded the reversal of a previously accrued uncertain state income tax position of \$7.1 million, net of federal income tax.

### **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 funding arrangements. The fluctuations in cash flows from financing activities are directly related to daily operating activities from our various businesses. One of our most important risk management disciplines is our ability

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to manage the size and composition of our balance sheet. While our asset base changes due to client activity, market fluctuations and business opportunities, the size and composition of our balance sheet reflect our overall risk tolerance, our ability to access stable funding sources and the amount of equity capital we hold.

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

	June 30, 2012	December 31, 2011	Average Balance for the Three Months Ended		
			June 30, 2012	December 31, 2011	June 30, 2011
<i>(Dollars in thousands)</i>					
Cash and cash equivalents:					
Cash in banks	\$ 20,501	\$ 20,117	\$ 34,656	\$ 26,761	\$ 29,015
Money market investments	19,091	65,690	27,262	33,195	19,595
Total cash and cash equivalents	<u>\$ 39,592</u>	<u>\$ 85,807</u>	<u>\$ 61,918</u> <sup>(1)</sup>	<u>\$ 59,956</u> <sup>(1)</sup>	<u>\$ 48,610</u> <sup>(1)</sup>

*(1) Average balance calculated based upon ending daily balances.*

In addition, we had cash and cash equivalents segregated of \$17.0 million and \$25.0 million that was available exclusively for customer liabilities included on our balance sheet as of June 30, 2012 and December 31, 2011, respectively. This cash and cash equivalents segregated consists of deposits in accordance with Rule 15c3-3 of the Securities Exchange Act of 1934, which subjects Piper Jaffray & Co., our U.S. broker dealer subsidiary carrying client accounts, to requirements related to maintaining cash or qualified securities in a segregated reserve account for the exclusive benefit of our clients.

A portion of these financial instruments are held within our regulated entities and our ability to transfer these financial instruments out of our regulated entities is limited by net capital requirements that apply to those entities only. Our regulated entities could seek regulatory approval to dividend these financial instruments to the parent for liquidity purposes; however, this could curtail our revenue producing activities within our regulated entities if it reduced our net capital.

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

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

We currently do not pay cash dividends on our common stock and do not plan to in the foreseeable future. Additionally, we have a bank syndicated credit agreement, as described in Note 12 to our consolidated financial statements, and it includes a restrictive covenant that restricts our ability to pay cash dividends.

In 2010, our board of directors authorized the repurchase of up to \$75 million in shares of our common stock through September 30, 2012. In the first half of 2012, we repurchased 1.5 million shares or \$33.5 million of our common stock related to this authorization. Based upon prior repurchases, \$17.9 million of this authorization remained available as of June 30, 2012. In the third quarter of 2012, we expect to seek additional share repurchase authorization from our Board. We also purchase shares of common stock from restricted stock award recipients upon the award vesting as recipients sell shares to meet their employment tax obligations. During the first half of 2012, we purchased 373,843 shares or \$8.8 million of our common shares for this purpose. Our bank syndicated credit agreement includes a covenant that limits the annual amount of common shares we can repurchase to the amount of new equity granted during that fiscal year. The aggregate amount we repurchased in the first quarter of 2012 was near the covenant limit. The agreement with our bank group was amended in May 2012 to allow for up to an additional \$25 million in shares to be repurchased in 2012. This additional amount was repurchased in the second quarter of 2012.

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[Table of Contents](#)**Leverage Ratios**

The following table presents total assets, adjusted assets, total shareholders' equity and tangible shareholders' equity with the resulting leverage ratios as of:

<i>(Dollars in thousands)</i>	<b>June 30, 2012</b>	<b>December 31, 2011</b>
Total assets	\$ 1,999,071	\$ 1,655,721
Deduct: Goodwill and intangible assets	(249,822)	(253,656)
Adjusted assets	<u>\$ 1,749,249</u>	<u>\$ 1,402,065</u>
Total shareholders' equity	\$ 741,896	\$ 750,600
Deduct: Goodwill and intangible assets	(249,822)	(253,656)
Tangible shareholders' equity	<u>\$ 492,074</u>	<u>\$ 496,944</u>
Leverage ratio <sup>(1)</sup>	<u>2.7</u>	<u>2.2</u>
Adjusted leverage ratio <sup>(2)</sup>	<u>3.6</u>	<u>2.8</u>

(1) Leverage ratio equals total assets divided by total shareholders' equity.

(2) Adjusted leverage ratio equals adjusted assets divided by tangible shareholders' equity.

Adjusted assets and tangible shareholders' equity are non-GAAP financial measures. A non-GAAP financial measure is a numeric measure of financial performance that includes adjustments to the most directly comparable measure calculated and presented in accordance with GAAP, or for which there is no specific GAAP measure. Goodwill and intangible assets are subtracted from total assets and total shareholders' equity in determining adjusted assets and tangible shareholders' equity, respectively, as we believe that goodwill and intangible assets do not constitute operating assets which can be deployed in a liquid manner. We view the resulting measure of adjusted leverage, also a non-GAAP financial measure, as a more relevant measure of financial risk when comparing financial services companies. Our leverage ratio and adjusted leverage ratio increased from December 31, 2011 to June 30, 2012 as a result of higher inventory balances.

**Funding and Capital Resources**

The primary goal of our funding activities is to ensure adequate funding over a wide range of market conditions. Given the mix of our business activities, funding requirements are fulfilled through a diversified range of short-term and long-term financing. We attempt to ensure that the tenor of our liabilities equals or exceeds the expected holding period of the assets being financed. Our ability to support increases in total assets is largely a function of our ability to obtain funding from external sources. Access to these external sources, as well as the cost of that financing, is dependent upon various factors, including market conditions, the general availability of credit and credit ratings. We currently do not have a credit rating, which could adversely affect our liquidity and competitive position by increasing our financing costs and limiting access to sources of liquidity that require a credit rating as a condition to providing the funds.

**Short-term financing**

Our day-to-day funding and liquidity is obtained primarily through the use of repurchase agreements, commercial paper issuance, prime broker agreements, 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 and municipal bond funds businesses. The majority of our inventory is very liquid and is therefore funded by overnight or short-term facilities. These short-term facilities (i.e., our committed line, term repurchase agreement and commercial paper) have been established to mitigate changes in the liquidity of our inventory based on changing market conditions. Our funding sources are also dependent on the types of

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inventory that our counterparties are willing to accept as collateral and the number of counterparties available. From time to time the number of counterparties that will enter into municipal repurchase agreements can be limited based on market conditions. Currently, the majority of our bank lines, commercial paper and prime broker arrangement will accept municipal inventory as collateral, which helps mitigate this municipal repurchase agreement 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.

Commercial Paper Program – Our U.S. broker dealer subsidiary, Piper Jaffray & Co, issues secured commercial paper to fund a portion of our securities inventory. This commercial paper is issued under two separate programs, CP Series A and CP Series II A, and is secured by different inventory classes, which is reflected in the interest rate paid on the respective program. The maximum amount that may be issued under CP Series A and CP Series II A is \$300 million and \$150 million, respectively. At June 30, 2012, CP Series A had \$198.2 million outstanding and CP Series II A had \$62.2 million outstanding. Both programs can issue with maturities of 27 to 270 days. The weighted average maturity of CP Series A and CP Series II A as of June 30, 2012 was 74 days and 36 days, respectively.

Prime Broker Arrangement – We have established an arrangement to obtain overnight financing by a single prime broker related to our municipal bond funds. Financing under this arrangement is secured by certain securities, primarily municipal securities, and collateral limitations could reduce the amount of funding available under this arrangement. More specifically, this funding is at the discretion of the prime broker and could be denied, which may be particularly true during times of market stress or market perceptions of our exposures. At June 30, 2012, we had \$120.3 million of financing outstanding under this prime broker arrangement.

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. All of these uncommitted lines are discretionary and are not a commitment by the bank to provide an advance under the line. More specifically, these lines are subject to approval by the respective bank each time an advance is requested and advances may be denied, which may be particularly true during times of market stress or market perceptions of our exposures. We manage our relationships with the banks that provide these uncommitted facilities in order to have appropriate levels of funding for our business. At June 30, 2012, we had \$48.0 million outstanding against these lines of credit.

Committed Lines - Our committed line is a \$250 million revolving secured credit facility. We use this credit facility in the ordinary course of business to fund a portion of our daily operations, and the amount borrowed under the facility varies daily based on our funding needs. Advances under this facility are secured by certain marketable securities. The facility includes a covenant that requires Piper Jaffray & Co., our U.S. broker dealer subsidiary, to maintain a minimum net capital of \$130 million, and the unpaid principal amount of all advances under the facility will be due on December 28, 2012. At June 30, 2012, we had no advances against this line of credit.

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The following table presents the average balances outstanding for our various short-term funding sources by quarter for 2012 and 2011, respectively.

	Average Balance for the Three Months Ended	
	June 30, 2012	March 31, 2012
<i>(Dollars in millions)</i>		
<b>Funding source:</b>		
Repurchase agreements	\$ 158.5	\$ 114.3
Commercial paper	238.8	201.2
Prime broker arrangement	32.1	5.8
Short-term bank loans	40.9	9.7
Total	\$ 470.3	\$ 331.0

	Average Balance for the Three Months Ended			
	Dec. 31, 2011	Sept. 30, 2011	June 30, 2011	March 31, 2011
<i>(Dollars in millions)</i>				
<b>Funding source:</b>				
Repurchase agreements	\$ 252.7	\$ 324.6	\$ 326.5	\$ 253.6
Commercial paper	147.1	125.7	117.9	112.1
Prime broker arrangement	5.8	-	-	-
Short-term bank loans	13.4	68.1	68.7	24.7
Total	\$ 419.0	\$ 518.4	\$ 513.1	\$ 390.4

The average funding in the second quarter of 2012 increased to \$470.3 million, compared with \$331.0 million during the first quarter of 2012 as a result of higher average inventory balances in the second quarter of 2012 and the payout of incentive compensation at the end of February. The increased inventory balances were the result of facilitating customer flow and an increase in proprietary positions. As compared to the second quarter of 2011, the average funding balance for the second quarter of 2012 decreased from \$513.1 million to \$470.3 million as a result of lower average inventory balances.

The following table presents the maximum daily funding amount by quarter for 2012 and 2011, respectively.

	For the Three Months Ended	
	June 30, 2012	March 31, 2012
<i>(Dollars in millions)</i>		
Maximum amount of daily financing	\$ 666.1	\$ 486.0

	For the Three Months Ended			
	Dec. 31, 2011	Sept. 30, 2011	June 30, 2011	March 31, 2011
<i>(Dollars in millions)</i>				
Maximum amount of daily financing	\$ 597.3	\$ 678.5	\$ 661.2	\$ 569.2

*Three-year bank syndicated credit agreement*

On December 29, 2010, we entered into a three-year bank syndicated credit agreement ("Credit Agreement"), comprised of a \$100 million amortizing term loan and a \$50 million revolving credit facility. SunTrust Bank is the administrative agent ("Agent") for the lenders. As of June 30, 2012, \$25.0 million was outstanding on the revolving credit facility, and \$63.6 million was outstanding on the amortizing term loan. Of the remaining term loan principal outstanding, we are required to pay \$10.2 million in 2012 and the remaining \$53.4 million in 2013.

The Credit Agreement includes customary events of default, including failure to pay principal when due or failure to pay interest within three business days of when due, failure to comply with the covenants in the Credit Agreement and related documents, failure to pay or another event of default under other material indebtedness in an amount exceeding \$5 million, bankruptcy or insolvency of

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the Company or any of our subsidiaries, a change in control of the Company or a failure of Piper Jaffray & Co. to extend, renew or refinance our existing \$250 million committed revolving secured credit facility on substantially the same terms as the existing committed facility. If there is any event of default under the Credit Agreement, the Agent may declare the entire principal and any accrued interest on the loans under the Credit Agreement to be due and payable and exercise other customary remedies.

The Credit Agreement includes covenants that, among other things, limit our leverage ratio, require maintenance of certain levels of cash and regulatory net capital, require our asset management segment to achieve minimum earnings before interest, taxes, depreciation and amortization, and impose certain limitations on our ability to make acquisitions and to repurchase or declare dividends on our capital stock. The Credit Agreement limits annual share repurchases to the amount of equity granted in conjunction with our annual equity compensation awards. The agreement with our bank group was amended in May 2012 to allow for up to an additional \$25 million in shares to be repurchased in 2012, which was exhausted in the second quarter of 2012. With respect to the net capital covenant, our U.S. broker dealer subsidiary is required to maintain minimum net capital of \$135 million. At June 30, 2012, we were in compliance with all covenants.

### **Contractual Obligations**

In the normal course of business, we enter into various contractual obligations that may require future cash payments. The following table summarizes the contractual amounts at June 30, 2012, in total and by remaining maturity. Excluded from the table are a number of obligations recorded in the consolidated statements of financial condition that generally are short-term in nature, including secured financing transactions, trading liabilities, short-term borrowings and other payables and accrued liabilities.

The table below has been updated for significant changes subsequent to December 31, 2011. On May 30, 2012, we entered into a lease agreement for 123,882 square feet of office space for the Company's headquarters. The term of the lease commences on June 1, 2014, and expires on November 30, 2025, and includes an option to terminate the lease early effective January 31, 2022. Our contractual rental obligations for the full 11.5 year lease term are \$24.5 million. In addition at June 30, 2012, we had \$56.4 million of investment commitments outstanding, of which \$50.0 million related to a commitment to an affiliated merchant banking fund and \$5.0 million related to a commitment to an affiliated municipal bond fund. In conjunction with the amendment to our bank syndicated credit agreement in May 2012, we made a \$15 million prepayment on the term loan.

<i>(Dollars in millions)</i>	Remainder of 2012	2013 through 2014	2015 through 2016	2017 and thereafter	Total
Operating lease obligations	\$ 7.5	\$ 25.9	\$ 20.3	\$ 41.9	\$ 95.6
Purchase commitments	5.4	10.2	2.9	3.0	21.5
Investment commitments (a)	-	-	-	-	56.4
Loan commitments (b)	-	-	-	-	-
Bank syndicated credit agreement	10.2	53.4	-	-	63.6

(a) The investment commitments have no specified call dates; however, the investment period for these funds is through 2016. The timing of capital calls is based on market conditions and investment opportunities. In July of 2012, we funded \$9.3 million into an affiliated merchant banking fund and \$5.0 million into an affiliated municipal bond fund.

(b) We may commit to merchant banking financing for our clients or make commitments to underwrite debt. We are unable to estimate the timing on the funding of these commitments and have no commitments outstanding at this time.

Purchase commitments include agreements to purchase goods or services that are enforceable and legally binding and that specify all significant terms, including fixed or minimum quantities to be purchased, fixed, minimum or variable price provisions, and the approximate timing of the transaction. Purchase commitments with variable pricing provisions are included in the table based on the minimum contractual amounts. Certain purchase commitments contain termination or renewal provisions. The table reflects the minimum contractual amounts likely to be paid under these agreements assuming the contracts are not terminated.

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The amounts presented in the table above may not necessarily reflect our actual future cash funding requirements, because the actual timing of the future payments made may vary from the stated contractual obligation. In addition, due to the uncertainty with respect to the timing of future cash flows associated with our unrecognized tax benefits as of June 2012, we are unable to make reasonably reliable estimates of the period of cash settlement with the respective taxing authority. Therefore, \$0.5 million of unrecognized tax benefits have been excluded from the contractual obligation table above. See Note 21 to the consolidated financial statements for a discussion of income taxes.

### **Capital Requirements**

As a registered broker dealer and member firm of FINRA, our U.S. broker dealer subsidiary is subject to the uniform net capital rule of the SEC and the net capital rule of FINRA. We have elected to use the alternative method permitted by the uniform net capital rule, which requires that we maintain minimum net capital of the greater of \$1.0 million or 2 percent of aggregate debit balances arising from customer transactions, as this is defined in the rule. FINRA may prohibit a member firm from expanding its business or paying dividends if resulting net capital would be less than 5 percent of aggregate debit balances. Advances to affiliates, repayment of subordinated liabilities, dividend payments and other equity withdrawals are subject to certain notification and other provisions of the uniform net capital rules. We expect that these provisions will not impact our ability to meet current and future obligations. We also are subject to certain notification requirements related to withdrawals of excess net capital from our broker dealer subsidiary. At June 30, 2012, our net capital under the SEC's uniform net capital rule was \$157.6 million, and exceeded the minimum net capital required under the SEC rule by \$156.6 million. During 2012, we have continued to reduce our excess net capital through dividends to the Parent Company of our U.S. broker dealer subsidiary ("the Parent"), which the Parent has used to repurchase stock and redeploy in other areas of our business.

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

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

### **Off-Balance Sheet Arrangements**

In the ordinary course of business we enter into various types of off-balance sheet arrangements. The following table summarizes our off-balance sheet arrangements at June 30, 2012 and December 31, 2011:

	Expiration Per Period at June 30, 2012						Total Contractual Amount	
	Remainder of 2012	2013	2014	2015-2016	2017-2018	Later	June 30, 2012	December 31, 2011
<i>(Dollars in thousands)</i>								
Customer matched-book derivative contracts <sup>(1)(2)</sup>	\$ -	\$ 50,620	\$ 83,750	\$ 141,277	\$ 71,740	\$ 5,392,913	\$ 5,740,300	\$ 5,848,530
Trading securities derivative contracts <sup>(2)</sup>	-	-	-	-	5,000	261,250	266,250	99,750
Credit default swap index contracts <sup>(2)</sup>	-	-	-	149,000	24,900	-	173,900	188,000
Private equity investment commitments <sup>(3)</sup>	-	-	-	-	-	-	56,373	1,520

(1) Consists of interest rate swaps. We have minimal market risk related to these matched-book derivative contracts; however, we do have counterparty risk with two major financial institutions, which is mitigated by collateral deposits. In addition, we have a limited number of counterparties (contractual amount of \$204.2 million at June 30, 2012) who are not required to post collateral. Based on market movements, the uncollateralized amounts representing the fair value of the derivative contracts could become material, exposing us to the credit risk of these counterparties. At June 30, 2012, we had \$36.2 million of credit exposure with these counterparties, including \$19.6 million of credit exposure with one counterparty.

(2) We believe the fair value of these derivative contracts is a more relevant measure of the obligations because we believe the notional or contract amount overstates the expected payout. At June 30, 2012 and December 31, 2011, the net fair value of these derivative contracts approximated \$35.9 million and \$36.0 million, respectively.

(3) The investment commitments have no specified call dates; however, the investment period for these funds is through 2016. The timing of capital calls is based on market conditions and investment opportunities. In July of 2012, we funded \$9.3 million into an affiliated merchant banking fund and \$5.0 million into an affiliated municipal bond fund.

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### *Derivatives*

Derivatives' notional contract amounts are not reflected as assets or liabilities on our consolidated statements of financial condition. Rather, the 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 reported on a net basis by counterparty when a legal right of offset exists and on a net basis by cross product when applicable provisions are stated in a master netting agreement.

We enter into derivative contracts in a principal capacity as a dealer to satisfy the financial needs of clients. We also use derivative products to hedge the interest rate and market value risks associated with our security positions. Our interest rate hedging strategies may not work in all market environments and as a result may not be effective in mitigating interest rate risk. For a complete discussion of our activities related to derivative products, see Note 4, "Financial Instruments and Other Inventory Positions Owned and Financial Instruments and Other Inventory Positions Sold, but Not Yet Purchased," in the notes to our consolidated financial statements.

### *Loan Commitments*

We may commit to bridge loan financing for our clients or make commitments to underwrite corporate debt. We had no loan commitments outstanding at June 30, 2012.

### *Private Equity and Other Principal Investments*

A component of our private equity and principal investments are made through investments in various legal entities, typically partnerships or limited liability companies, established for the purpose of investing in securities of public or private companies or municipal debt obligations. We commit capital or act as the managing partner of these entities. Some of these entities are deemed to be variable interest entities. For a complete discussion of our activities related to these types of entities, see Note 6, "Variable Interest Entities," to our consolidated financial statements.

We have committed capital to certain entities and these commitments generally have no specified call dates. We had \$56.4 million of commitments outstanding at June 30, 2012, of which \$50.0 million and \$5.0 million related to commitments to an affiliated merchant banking fund and an affiliated municipal bond fund, respectively.

### **Enterprise Risk Management**

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

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

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

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

### ***Market Risk***

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

Our different types of market risk include:

*Interest Rate Risk* - Interest rate risk represents the potential volatility from changes in market interest rates. We are exposed to interest rate risk arising from changes in the level and volatility of interest rates, changes in the shape of the yield curve, changes in credit spreads, and the rate of prepayments on our interest-earning assets (including client cash balances, investments, inventories, and resale agreements) and our funding sources (including client cash balances, short-term and bank syndicated financing, and repurchase agreements), which finance these assets. 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 use interest rate swap contracts and MMD rate lock agreements to hedge a portion of our fixed income inventory. These interest rate swap contracts are recorded at fair value with the changes in fair value recognized in earnings. 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.

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

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

### ***Value-at-Risk***

Value-at-Risk ("VaR") is the potential loss in value of our trading positions, excluding non-controlling interests, 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.

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

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

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

The following table quantifies the model-based VaR simulated for each component of market risk for the periods presented, which are computed using the past 250 days of historical data. When calculating VaR we use a 95 percent confidence level and a one-day time horizon. This means that, over time, there is a 1 in 20 chance that daily trading net revenues will fall below the expected daily trading net revenues by an amount at least as large as the reported VaR. Shortfalls on a single day can exceed reported VaR by significant amounts. Shortfalls can also accumulate over a longer time horizon, such as a number of consecutive trading days. Therefore, there can be no assurance that actual losses occurring on any given day arising from changes in market conditions will not exceed the VaR amounts shown below or that such losses will not occur more than once in a 20-day trading period.

	June 30, 2012		December 31, 2011	
<i>(Dollars in thousands)</i>				
Interest Rate Risk	\$	1,258	\$	696
Equity Price Risk		599		1,005
Diversification Effect <sup>(1)</sup>		(750)		(734)
Total Value-at-Risk	\$	1,107	\$	967

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

We view average VaR over a period of time as more representative of trends in the business than VaR at any single point in time. The table below illustrates the daily high, low and average value-at-risk calculated for each component of market risk during the six months ended June 30, 2012 and the year ended December 31, 2011, respectively.

### For the Six Months Ended June 30, 2012

	High		Low		Average	
<i>(Dollars in thousands)</i>						
Interest Rate Risk	\$	1,273	\$	463	\$	845
Equity Price Risk		1,139		169		676
Diversification Effect <sup>(1)</sup>						(683)
Total Value-at-Risk	\$	1,221	\$	539	\$	838

### For the Year Ended December 31, 2011

	High		Low		Average	
<i>(Dollars in thousands)</i>						
Interest Rate Risk	\$	1,968	\$	604	\$	1,072
Equity Price Risk		1,451		25		280
Diversification Effect <sup>(1)</sup>						(300)
Total Value-at-Risk	\$	1,889	\$	589	\$	1,052

<sup>(1)</sup> 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 exceeded our one-day VaR on two occasions during the first half of 2012.

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The aggregate VaR as of June 30, 2012 was higher compared to levels reported as of December 31, 2011 due to inventory growth in most of our trading books.

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

### ***Liquidity Risk***

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

We are also exposed to liquidity risk in our day-to-day funding activities. We have a relatively low leverage ratio of 2.7 and adjusted leverage ratio of 3.6 as of June 30, 2012, as discussed above. We manage liquidity risk by diversifying our funding sources across products and among individual counterparties within those products. For example, our treasury department actively manages the use of our committed bank line, repurchase agreements, commercial paper issuance and secured and unsecured bank borrowings each day depending on pricing, availability of funding, available collateral and lending parameters from any one of these sources.

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

We currently act as the remarketing agent for approximately \$4.5 billion of variable rate demand notes, the majority of which have a financial institution providing a liquidity guarantee. At certain times, demand from buyers of variable rate demand notes is less than the supply generated by sellers of these instruments. In times of supply and demand imbalance, we may (but are not obligated to) facilitate liquidity by purchasing variable rate demand notes from sellers for our own account. Our liquidity risk related to variable rate demand notes is ultimately mitigated by our ability to tender these securities back to the financial institution providing the liquidity guarantee.

### ***Credit Risk***

Credit risk in our business arises from potential non-performance by counterparties, customers, borrowers or issuers of securities we hold in our trading inventory. The global credit crisis also has created increased credit risk, particularly counterparty risk, as the interconnectedness of the financial markets has caused market participants to be impacted by systemic pressure, or contagion, that results from the failure or potential failure of market participants. We manage this risk by imposing and monitoring position limits for each counterparty, monitoring trading counterparties, conducting credit reviews of financial counterparties, and conducting business through clearing organizations, which guarantee performance.

We have concentrated counterparty credit exposure with six non-publicly rated entities totaling \$36.2 million at June 30, 2012. This counterparty credit exposure is part of our derivative program, consisting primarily of interest rate swaps. One derivative counterparty represents 54.1 percent, or \$19.6 million, of this exposure. Credit exposure associated with our derivative counterparties is driven by uncollateralized market movements in the fair value of the interest rate swap contracts and is monitored regularly by our financial risk committee. We attempt to minimize the credit (or repayment) risk in derivative instruments by entering into transactions with high-quality counterparties that are reviewed periodically by senior management.

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.

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

Merchant banking debt investments that have been funded are recorded in other assets at amortized cost on the consolidated statements of financial condition. At June 30, 2012, we had two funded merchant banking debt investments totaling \$13.7 million. Merchant banking investments are monitored regularly by our financial risk committee.

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 through review of counterparties and borrowers and is managed through the use of policies and limits.

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

### ***Operational Risk***

Operational risk refers to the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. We rely on the ability of our employees, our internal systems and processes and systems at computer centers operated by third parties to process a large number of transactions. In the event of a breakdown or improper operation of our systems or processes or improper action by our employees or third-party vendors, we could suffer financial loss, a disruption of our businesses, 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.

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***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.

Other risks include political, regulatory and tax risks. These risks reflect the potential impact that changes in local and international laws and tax statutes have on the economics and viability of current or future transactions. In an effort to mitigate these risks, we review new and pending regulations and legislation.

**Effects of Inflation**

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

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

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

**ITEM 4. CONTROLS AND PROCEDURES.**

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

During the second quarter of our fiscal year ended December 31, 2012, 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 discussion of our business and operations should be read together with the legal proceedings contained in Part I, Item 3 "Legal Proceedings" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

**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, 2011. 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.

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

The table below sets forth the information with respect to purchases made by or on behalf of Piper Jaffray Companies or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of our common stock during the quarter ended June 30, 2012.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(1)</sup>
Month #1 (April 1, 2012 to April 30, 2012)	56,674	\$ 25.63	56,674	\$ 43 million
Month #2 (May 1, 2012 to May 31, 2012)	616,379 <sup>(2)</sup>	\$ 21.75	595,374	\$ 30 million
Month #3 (June 1, 2012 to June 30, 2012)	549,045	\$ 21.91	549,045	\$ 18 million
<b>Total</b>	<b>1,222,098</b>	<b>\$ 22.00</b>	<b>1,201,093</b>	<b>\$ 18 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 595,374 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 \$21.74, and 21,005 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 \$21.86.

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

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**ITEM 6. EXHIBITS**

<b>Exhibit Number</b>	<b>Description</b>	<b>Method of Filing</b>
4.1	Second Amended and Restated Indenture dated as of June 11, 2012	Filed herewith
10.1	Form of Performance Share Unit Agreement for 2012 Leadership Team Grants under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan*	Filed herewith
10.2	Sixth Amendment to Loan Agreement (Broker-Dealer VRDN), dated April 30, 2012 between Piper Jaffray & Co. and U.S. Bank National Association	Filed herewith
10.3	Third Amendment to Credit Agreement, dated May 2, 2012, by and among Piper Jaffray Companies, SunTrust Bank, as administrative agent, and the lenders party thereto	(1)
10.4	Office Lease Agreement, dated May 30, 2012, by and among Piper Jaffray & Co. and Wells REIT – 800 Nicollett Avenue Owner, LLC	(2)
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chairman and Chief Executive Officer	Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer	Filed herewith
32.1	Section 1350 Certifications	Filed herewith
101	Interactive data files pursuant to Rule 405 Registration S-T: (i) the Consolidated Statements of Financial Condition as of June 30, 2012 and December 31, 2011, (ii) the Consolidated Statements of Operations for the three and six months ended June 30, 2012 and 2011, (iii) the Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2012 and 2011, (iv) the Consolidated Statements of Cash Flows for the six months ended June 30, 2012 and 2011 and (v) the notes to the Consolidated Financial Statements.	Filed herewith

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\* Denotes management contract or compensatory plan or arrangement required to be filed as an exhibit to this report.

(1) Filed as an exhibit to the Company's Form 8-K, filing with the Commission on May 4, 2012 and incorporated herein by reference.

(2) Filed as an exhibit to the Company's Form 8-K, filing with the Commission on June 1, 2012 and incorporated herein by reference.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on August 2, 2012.

PIPER JAFFRAY COMPANIES

By /s/ Andrew S. Duff

Its Chairman and Chief Executive Officer

By /s/ Debbra L. Schoneman

Its Chief Financial Officer

## Exhibit Index

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PIPER JAFFRAY & CO.

Issuer

THE BANK OF NEW YORK MELLON  
Trustee

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SECOND AMENDED AND RESTATED INDENTURE

Dated as of June 11, 2012

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SECURED COMMERCIAL PAPER NOTES

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This SECOND AMENDED AND RESTATED INDENTURE is dated as of June 11, 2012 (as amended, supplemented or restated from time to time, this "Indenture"), between PIPER JAFFRAY & CO., a corporation organized under the laws of the State of Delaware (the "Issuer"), and THE BANK OF NEW YORK MELLON, a New York banking corporation, as indenture trustee (the "Trustee").

WITNESSETH:

WHEREAS, the Issuer and the Trustee have previously entered into an Indenture, dated as of December 28, 2009 (the "Original Indenture"), and an Amended and Restated Indenture, dated as of March 23, 2010 (the "Amended Indenture", and collectively with the Original Indenture, the "Indenture"), pursuant to which Series A CP Notes in the principal amount of \$196,930,000 as of the date hereof are outstanding and hereby wish to amend and restate the Indenture and are executing and delivering this Indenture in order to provide for the continued issuance by the Issuer of the Series A CP Notes; and

WHEREAS, Trustee and Issuer each have executed a Letter of Representations (the "Letter of Representations", which term shall include the procedures referred to therein) with the Issuer and the initial Clearing Agency, The Depository Trust Company ("DTC") and a Certificate Agreement (the "Certificate Agreement") with DTC which establish, among other things, the procedures to be followed by Trustee in connection with the issuance and custody of Book-Entry Series A CP Notes.

WHEREAS, The Bank of New York Mellon, as Securities Intermediary and, in its capacity as Trustee hereunder, as Secured Party, and Issuer, as Pledgor, each have executed a Collateral Account Control Agreement, dated as of the date hereof, whereby the Securities Intermediary has agreed to establish and maintain the Collateral Account (as defined herein).

NOW THEREFORE, in consideration of the mutual agreements herein contained, and of other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

GRANTING CLAUSES

To secure payment and performance of the Series A CP Notes and other obligations of the Issuer under this Indenture, the Issuer hereby unconditionally grants, transfers, assigns, sets over, pledges and conveys to the Trustee, as Trustee and Secured Party, for the exclusive benefit of the Holders of the Series A CP Notes, subject to the terms of this Indenture and the Collateral Account Control Agreement (pursuant to which the Securities Intermediary will take instructions from the Pledgor or the Secured Party, as specified therein) a continuing security interest in and a lien on all of the Issuer's right, title and interest in and to all assets held by the Securities Intermediary pursuant to the Collateral Account Control Agreement, including without limitation (a) all investment property held in the Collateral Account whether now or hereafter existing, including all payments of principal and interest received, collected or otherwise recovered on such investment property and all other proceeds received in respect of such investment property, (b) all cash, instruments or other property that are held or required to be deposited in the Collateral Account, including all investments made with funds in the Collateral Account, and (c) all proceeds of the conversion, voluntary or involuntary, of any of the foregoing into cash or other liquid assets, including, without limitation, all insurance proceeds and condemnation awards (collectively, the "Collateral").

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The foregoing Grants are made in trust to secure the Series A CP Notes equally and ratably without prejudice, priority or distinction between any Series A CP Note and any other Series A CP Notes, except as expressly provided in this Indenture and to secure (i) the payment of all amounts due on the Series A CP Notes in accordance with their terms, (ii) the payment of all other sums payable under this Indenture and (iii) compliance with the provisions of this Indenture, all as provided herein (the "Secured Obligations").

The Trustee acknowledges such Grants, accepts the trusts hereunder in accordance with the provisions of this Indenture and agrees to perform the duties herein required to the end that the interests of the Holders of the Series A CP Notes may be adequately and effectively protected.

## Article I.

### DEFINITIONS AND CONSTRUCTION

#### Section 1.01 Definitions.

As used in this Indenture and unless otherwise defined herein, capitalized terms used in this Indenture shall have the meanings assigned to them in the Collateral Account Control Agreement, the form of which is attached hereto as Exhibit F.

*"Act" or "Act of the Series A CP Noteholders"* has the meaning specified in Section 10.02 of this Indenture.

*"Affiliate"* means, with respect to a particular Person, (a) any Person that, directly or indirectly, is in control of, is controlled by, or is under common control with, such Person, or (b) any Person who is a director or officer or general partner (i) of such Person, (ii) of any subsidiary of such Person, or (iii) of any Person described in clause (a) above. For purposes of this definition, control of a Person shall mean the power, direct or indirect, (i) to vote 5% or more of the securities having ordinary voting power to elect the directors of such Person, or (ii) to direct or cause the direction of the management and policies of such Person whether by contract or otherwise.

*"Authorized Representative"* has the meaning specified in Section 3.07 of this Indenture.

*"Basic Documents"* means this Trust Indenture and the Collateral Account Control Agreement.

*"Book Entry Series A CP Notes"* means beneficial interests in Notes designated as "Book Entry Series A CP Notes" in this Indenture, ownership and transfers of which shall be evidenced or made through book entries by a Clearing Agency as described in Section 2.11; provided, that after the occurrence of a condition whereupon Definitive Notes are to be issued to Note Owners, such Book Entry Series A CP Notes shall no longer be "Book Entry Series A CP Notes."

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*"Business Day"* means any day on which the Trustee and the appropriate depositories are open for business.

*"Clearing Agency"* means an organization registered as a "clearing agency" pursuant to Section 17A of the Exchange Act, as amended. As of the Closing Date, the Clearing Agency shall be The Depository Trust Company.

*"Clearing Agency Participant"* means a broker, dealer, bank, other financial institution or other Person for whom from time to time a Clearing Agency effects book entry transfers and pledges of securities deposited with the Clearing Agency.

*"Closing Date"* means each date of issuance of Series A CP Notes.

*"Collateral"* has the meaning specified in the Granting Clauses herein.

*"Collateral Account"* means custodial account number PJH006, established and maintained by the Securities Intermediary under the Collateral Account Control Agreement.

*"Collateral Account Control Agreement"* means, the Amended and Restated Collateral Account Control Agreement, dated as of June 11, 2012, among The Bank of New York Mellon as Trustee, as Secured Party and, The Bank of New York Mellon, as Securities Intermediary, and the Issuer, as Pledgor, as the same may be amended, supplemented, restated or otherwise modified from time to time

*"Corporate Trust Office"* means the principal office of the Trustee at which at any particular time its corporate trust business shall be administered, which office at the date of the execution of this Indenture is located at

The Bank of New York Mellon  
101 Barclay Street, Floor 7 West  
New York, New York, New York, 10286  
Attention: Corporate Trust Administration  
Dealing and Trading.

*"Daily Collateral Report"* means a report provided by the Trustee pursuant to Section 3.03, containing the information required in Exhibit E hereto.

*"Definitive Series A CP Note"* means a Series A CP Note in the form of a registered, physical certificated security issued or endorsed directly to the Holder thereof.

*"Designated Officer"* shall mean an officer of the Trustee charged with the administration of this Indenture.

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*"Dollars", "\$" or "U.S. \$"* means United States dollars and, where the context requires, means Dollars paid and/or held in the form of cash monies or dollar-denominated commercial deposit accounts.

*"DTC"* has the meaning specified in the Preamble to this Indenture.

*"Eligible Collateral"* has the meaning specified in Article 1 and Schedule I of the Collateral Account Control Agreement.

*"Event of Default"* has the meaning specified in Section 5.01 of this Indenture.

*"Interest Accrual Period"* means, with respect to any interest-bearing Series A CP Notes, on any Interest Payment Date, the period from and including the preceding Interest Payment Date (or, in the case of the first Payment Date occurring after the related Closing Date, such Closing Date) to and excluding such Payment Date, in each case calculated on the basis of actual number of days over 360 days, subject to Section 10.10.

*"Interest Payment Date"* means the fifteenth day of each calendar month or, if such fifteenth day is not a Business Day, the next succeeding Business Day, commencing January 2010.

*"Investment Company Act"* means the Investment Company Act of 1940, as amended from time to time.

*"Issuance Notice"* means the notice required to be provided by the Issuer to the Trustee pursuant to Section 2.14(c) of this Indenture.

*"Issuer"* means Piper Jaffray & Co., a Delaware corporation.

*"Lien"* means any security interest, mortgage, deed of trust, pledge, hypothecation, assignment, participation or equity interest, deposit arrangement, encumbrance, lien (statutory or other), preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever, including, without limitation, any conditional sale or other title retention agreement, any financing lease having substantially the same economic effect as any of the foregoing, and includes the filing of any financing statement under the UCC (other than any such financing statement filed for informational purposes only) or comparable law of any jurisdiction to evidence any of the foregoing.

*"Majority of Series A CP Noteholders" or "Majority Series A CP Noteholders"*, means the Holders of Series A CP Notes evidencing in the aggregate more than 50% of the Outstanding amount of the Series A CP Notes.

*"Margin Percentage"* shall have the meaning specified in Article I of the Collateral Account Control Agreement.

*"Margin Value"* shall have the meaning specified in Article 1 of the Collateral Account Control Agreement.

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*"Margin Value Deficiency"* means the excess of the Obligation Amount over the Margin Value.

*"Master Series A CP Note"* has the meaning specified in Section 2.01 of this Indenture.

*"Maturity Date"* means, as to each Series A CP Note, the Maturity Date set forth on the face thereof.; provided, however, the Maturity Date of a Series A CP Note shall not be greater than 270 days after the related Closing Date; and further provided that a Maturity Date must be on a Business Day

*"Note Account"* means the account of that name established pursuant to Section 8.05 of this Indenture.

*"Notice of Exclusive Control"* has the meaning set forth in Article 1 of the Collateral Account Control Agreement.

*"Obligation Amount"* has the meaning specified in Article 1 of the Collateral Account Control Agreement.

*"Officer's Certificate"* means a certificate signed by the Chief Executive Officer, the President, the Chief Financial Officer, the Treasurer or any Assistant Treasurer of the relevant party and delivered to the Trustee.

*"Opinion of Counsel"* means a written opinion reasonably acceptable to the party to whom the opinion is directed. of counsel, who may be counsel for or an employee of the Person providing the opinion.

*"Outstanding"* as of any date of determination and with respect to Series A CP Notes, refers to all Series A CP Notes theretofore authenticated and delivered under this Indenture, except:

- (i) Series A CP Notes theretofore cancelled or delivered for cancellation, as specified in this Indenture;
- (ii) Series A CP Notes or portions thereof for which payment or redemption money in the necessary amount has been theretofore deposited as specified in this Indenture;
- (iii) Series A CP Notes in exchange for or in lieu of which other Series A CP Notes have been authenticated and delivered pursuant to this Indenture, unless proof is presented to the Trustee that any such Series A CP Notes are held by a holder in due course; and
- (iv) Series A CP Notes alleged to have been destroyed, lost or stolen and for which replacement Series A CP Notes have been issued as provided for in this Indenture.

*"Paying Agent"* means any paying agent appointed pursuant to Section 2.08 of this Indenture, and shall initially be the Trustee.

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*"Payment Date"* means each Interest Payment Date and each Maturity Date.

*"Permitted Lien"* means with respect to the Collateral, Liens in favor of the Trustee pursuant to this Indenture.

*"Person"* means any legal person, including any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization, governmental entity or other entity of similar nature.

*"Record Date"* means the Business Day immediately preceding a Payment Date or Interest Payment Date .

*"Relevant UCC State"* means each jurisdiction in which the filing of a UCC financing statement is necessary to perfect the ownership interest of the Issuer pursuant to the security interest granted to the Issuer or the Trustee.

*"Secured Obligations"* has the meaning assigned in the granting clauses of this Indenture.

*"Securities Act"* means the Securities Act of 1933, as amended.

*"Securities Intermediary"* has the meaning specified in the Collateral Account Control Agreement.

*"Series A CP Note Interest"* means, with respect to any interest-bearing Series A CP Note, the interest payable in respect of such Series A CP Notes (as calculated in accordance with Section 2.15 hereof and payable pursuant to Section 8.02 of this Indenture), including any interest remaining unpaid from any prior Interest Payment Date.

*"Series A CP Note Principal"* means principal payable in respect of the Series A CP Notes pursuant to Section 8.02 of this Indenture.

*"Series A CP Note Rate"* means with respect to each Series A CP Note, the rate set by the Issuer at the time of issuance thereof, which rate shall be communicated to the Trustee by the Issuer in its Issuance Notice.

*"Series A CP Note Register"* means the register maintained pursuant to Section 2.05(a) of this Indenture, providing for the registration of the Series A CP Notes and transfers and exchanges thereof.

*"Series A CP Noteholder or Holder"* means the Person in whose name a Series A CP Note is registered in the Series A CP Note Register.

*"Series A CP Notes"* means the Issuer's Secured Commercial Paper Notes, issued pursuant to Section 2.01 of this Indenture and authenticated by the Trustee substantially in the form attached hereto as Exhibit A.

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*"Series A CP Note Owner or Owner"* means with respect to a Book Entry Series A CP Note, the Person that is the beneficial owner of such Book Entry Series A CP Note, as reflected on the books of the Clearing Agency or on the books of a Person maintaining an account with such Clearing Agency (directly as a Clearing Agency Participant or as an indirect participant, in each case in accordance with the rules of such Clearing Agency), and with respect to a Definitive Note, the Person that is the registered owner of such Series A CP Note as reflected in the Note Register.

*"Transfer"* means to transfer, sell, exchange, pledge, hypothecate, participate, or otherwise assign, in whole or in part.

*"Transfer Agent and Registrar"* has the meaning specified in Section 2.05 of this Indenture.

*"Trustee"* means The Bank of New York Mellon, in its capacity as indenture trustee under this Indenture, or any successor trustee appointed as provided therein.

*"UCC"* means the Uniform Commercial Code, as amended from time to time, as in effect in the applicable jurisdiction.

#### Section 1.02 Rules of Construction.

Except as otherwise expressly provided in this Indenture or unless the context otherwise clearly requires:

- (a) Defined terms include, as appropriate, all genders and the plural as well as the singular. References to designated articles, sections, and other subdivisions of this Indenture, such as "Section 2.04(a)," refer to the designated article, section, or other subdivision of this Indenture as a whole and to all subdivisions of the designated article, section, or other subdivision. The words "herein," "hereof," "hereto," "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular article, section, or other subdivision of this Indenture.
- (b) Any term that relates to a document or a statute, rule or regulation includes any amendments, modifications, supplements or any other changes that may have occurred since the document, statute or rule came into being, including changes that occur after the date of this Indenture.
- (c) Any party may execute any of its obligations under this Indenture either directly or through others, and the right to cause something to be done rather than doing it directly shall be implicit in every requirement under this Indenture; provide that any such party shall remain responsible to the other party hereto for the proper performance of its obligations hereunder.
- (d) The term "including" and all its variations mean "including but not limited to." Except when used in conjunction with the word "either," the word "or" is always used inclusively (for example, the phrase "A or B" means "A or B or both," not "either A or B but not both").

- 
- (e) All accounting terms used in an accounting context shall be construed in accordance with generally accepted accounting principles as in effect in the United States. Capitalized terms used in this Indenture without definition that are defined in the Uniform Commercial Code are used in this Indenture as defined in the Uniform Commercial Code.
  - (f) In the computation of a period of time from a specified date to a later specified date, the word "from" means "from and including" and the words "to" or "until" mean "to but excluding."

Section 1.03 Supplements Controlling.

If a conflict exists between the provisions of this Indenture and any Supplement, the provisions of the Supplement shall be controlling.

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**Article II.**

**THE SERIES A CP NOTES**

Section 2.01 Form Generally.

The Notes shall be designated as the "Piper Jaffray Secured Series A CP Notes." The Notes, together with the Trustee's certificate of authentication, shall be in substantially the forms set forth in Exhibit A with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Indenture, and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may, consistently herewith, be determined by the officers executing such Series A CP Notes, as evidenced by their execution of the Series A CP Notes. Any portion of the text of any Series A CP Note may be set forth on the reverse thereof, with an appropriate reference thereto on the face of the Series A CP Note.

The Definitive Notes and the global certificate ("Master Series A CP Note") representing the Book Entry Series A CP Notes shall be typewritten, printed, lithographed or engraved or produced by any combination of these methods (with or without steel engraved borders), all as determined by the officers executing such Series A CP Notes, as evidenced by their execution of such Series A CP Notes.

Each Series A CP Note shall be dated the date of its authentication. The terms of the Series A CP Notes set forth in Exhibit A are part of the terms of this Indenture.

Section 2.02 Denominations.

The Series A CP Notes shall be issued in minimum amounts of \$100,000 and integral multiples of \$5,000 in excess thereof. Series A CP Notes shall be issued without coupons attached. Purchases of the Series A CP Notes will not be permitted in principal amounts less than \$1,000,000.

Section 2.03 Execution, Authentication and Delivery.

Each Series A CP Note shall be executed by manual or facsimile signature by an Authorized Representative of the Issuer and shall be authenticated by the Trustee at the written direction of an Authorized Representative of the Issuer.

Series A CP Notes bearing the manual or facsimile signature of an individual who was, at the time when the signature was affixed, authorized to sign on behalf of the Issuer shall not be rendered invalid notwithstanding the fact that the individual ceased to be so authorized prior to the authentication and delivery of the Series A CP Notes or does not hold that office at the date of issuance of the Series A CP Notes.

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No Series A CP Note shall be entitled to any benefit under this Indenture or be valid for any purpose unless a certificate of authentication appears on the Series A CP Note substantially in the form provided for in this Indenture executed by the Trustee by the manual signature of a duly authorized signatory. The certificate of authentication upon any Series A CP Note shall be conclusive evidence, and the only evidence, that that Series A CP Note has been duly authenticated and delivered.

The Issuer will from time to time to the extent it determines to issue Definitive Series A CP Notes, furnish to the Trustee an adequate supply of Series A CP Notes. Definitive Series A CP Notes, if any, shall be in substantially the form agreed upon by the Issuer and the Trustee and shall be serially numbered and shall have been executed by manual or facsimile signature of an Authorized Representative (as hereafter defined), but shall otherwise be uncompleted. Book-Entry Series A CP Notes shall be represented by a single Master Series A CP Notes substantially in the form attached hereto as Exhibit A and which shall be executed by manual or facsimile signature by an Authorized Representative in accordance with the Letter of Representations. Pending receipt of instructions pursuant to this Agreement, the Trustee will hold the Master Series A CP Note in safekeeping for the account of the Issuer or the Clearing Agency, as the case may be, in accordance with Trustee's customary practice and the requirements of the Certificate Agreement.

Each Definitive Series A CP Note or Master Note delivered to the Trustee shall be accompanied by a letter from the Issuer, as the case may be, identifying the Definitive Series A CP Note or Master Note(s) transmitted therewith, and the Trustee shall acknowledge receipt of such Definitive Series A CP Note(s) or Master Note(s) on the copy of such letter or pursuant to some other form of written receipt deemed appropriate by the Trustee at the time of delivery to the Trustee of such Definitive Series A CP Note(s) or Master Note(s). Pending the issuance of Definitive Series A CP Notes as provided in Section 2.13 of this Indenture, all Definitive Series A CP Notes and Master Note(s) delivered to the Trustee shall be held by the Trustee for the account of the Issuer or the Clearing Agency, as the case may be, for safekeeping in accordance with the Trustee's customary practice and the requirements of the Certificate Agreement.

Section 2.04 Authenticating Agent.

- (a) The Trustee may appoint authenticating agents (who must be Designated Officers of the Trustee) for the Series A CP Notes. Any authenticating agent shall be authorized to act on behalf of the Trustee in authenticating the Series A CP Notes in connection with the issuance, delivery, registration of transfer, exchange or repayment of the Series A CP Notes. Whenever reference is made in this Indenture to the authentication of Series A CP Notes by the Trustee or the Trustee's certificate of authentication, that reference includes authentication on behalf of the Trustee by an authenticating agent and a certificate of authentication executed on behalf of the Trustee by an authenticating agent. Each authenticating agent must be acceptable to the Issuer.
- (b) Any institution succeeding to the corporate agency business of an authenticating agent shall continue to be an authenticating agent without the execution or filing of any power or any further act on the part of the Trustee or the authenticating agent.

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- (c) An authenticating agent may at any time resign by giving written notice of resignation to the Trustee and to the Issuer. The Trustee may at any time terminate the agency of an authenticating agent by giving notice of termination to that authenticating agent and to the Issuer.
  - (d) The Issuer agrees to pay to each authenticating agent from time to time reasonable compensation for its services under this Section.
  - (e) The provisions of Sections 6.01 and 6.04 shall be applicable to any authenticating agent.
  - (f) Pursuant to an appointment made under this Section, the Series A CP Notes may be endorsed using, in lieu of or in addition to the Trustee's certificate of authentication, an alternative certificate of authentication in substantially the following form:

"This is one of the Series A CP Notes described in the within-mentioned Indenture.

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as Authenticating Agent  
for the Trustee

By:

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Authorized Signatory"

Dated:

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Section 2.05 Registration of and Limitations on Transfer and Exchange of Series A CP Notes.

(a) The Issuer shall cause to be kept a register (the "Series A CP Note Register") in which, subject to such reasonable regulations as it may prescribe and the restrictions on transfers of the Series A CP Notes as provided herein, a transfer agent and registrar (the "Transfer Agent and Registrar") shall provide for the registration of the Series A CP Notes and of transfers and exchanges of the Series A CP Notes. The Transfer Agent and Registrar shall initially be the Trustee, and the Series A CP Note Register shall initially be kept at the office of the Trustee. Unless the context requires otherwise, any reference in this Indenture to the Transfer Agent and Registrar shall include any co-transfer agent and registrar appointed by the Trustee.

The Trustee shall be permitted to resign as Transfer Agent and Registrar upon 30 days' written notice to the Issuer and the Series A CP Noteholders; provided, however, that such resignation shall not be effective and the Trustee shall continue to perform its duties as Transfer Agent and Registrar until the Issuer at its own expense has appointed a successor Transfer Agent and Registrar reasonably acceptable to the Trustee. If, after the date hereof, a Person other than the Trustee is appointed by the Issuer as Transfer Agent and Registrar, the Issuer shall give the Trustee prompt written notice of that appointment and of the location, and any change in the location, of the Series A CP Note Register. The Trustee may inspect the Series A CP Note Register at all reasonable times and obtain copies of it, and the Trustee may conclusively rely upon a certificate executed by the Transfer Agent and Registrar as to the names, addresses and taxpayer identification numbers of the Series A CP Noteholders and the principal balances and numbers of the Series A CP Notes.

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Upon surrender for registration of transfer of any Series A CP Note at any office or agency of the Transfer Agent and Registrar maintained for such purpose, the Issuer shall execute, and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Series A CP Notes in any authorized denominations of like aggregate principal balance.

At the option of a Series A CP Noteholder, Series A CP Notes may be exchanged for other Series A CP Notes in any authorized denominations of like aggregate principal balance, upon surrender of the Series A CP Notes to be exchanged at any office or agency of the Transfer Agent and Registrar maintained for such purpose. Whenever any Series A CP Note is so surrendered for exchange, the Issuer shall execute, and the Trustee shall authenticate and deliver, the Series A CP Notes which the Series A CP Noteholder making the exchange is entitled to receive.

All Series A CP Notes issued upon any registration of transfer or exchange of Series A CP Notes shall evidence the same obligations and the same debt, and their Holders shall be entitled to the same rights and privileges under this Indenture, as the surrendered Series A CP Notes or the Holders thereof, as applicable.

Every Series A CP Note presented or surrendered for registration of transfer or exchange shall be duly endorsed by, or be accompanied by (i) a written instrument of transfer in a form satisfactory to the Transfer Agent and Registrar and duly executed by, its Holder or any attorney-in-fact thereof duly authorized in writing, (ii) any representation letters or certifications required by the Series A CP Notes and (iii) any other documents reasonably required by the Transfer Agent and Registrar. Each Series A CP Noteholder must satisfy all transfer restrictions set forth in the Series A CP Notes.

Each Series A CP Note shall be registered at all times as herein provided, and any transfer or exchange of such Series A CP Note shall be valid for purposes hereunder only upon registration of such transfer or exchange by the Transfer Agent and Registrar as provided herein. Payments on any Payment Date shall be made to Series A CP Noteholders of record on the immediately preceding Record Date.

No service charge shall be made for any registration of transfer or exchange of Series A CP Notes, but the Transfer Agent and Registrar or any co-transfer agent and registrar may require payment of a sum sufficient to cover any tax or governmental charge that may be imposed in connection with any transfer or exchange of the Series A CP Notes.

(b) The Transfer Agent and Registrar shall at all times maintain in The City of New York, an office or offices or agency or agencies where Series A CP Notes may be surrendered for registration of transfer or exchange.

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(c) No Series A CP Note may be offered, sold, delivered or transferred (including, without limitation, by pledge or hypothecation) except to Qualified Institutional Buyers ("QIBs") and Qualified Purchasers ("QPs") (each, as defined in Exhibit B hereto), in each case purchasing for their own account. Each Series A CP Note shall bear a restrictive legend to the foregoing effect substantially in the form of the legends on the face of the form of Series A CP Note at Exhibit A.

(d) Each Prospective Owner shall represent and warrant in writing in substantially the form set forth in Exhibit B hereto, to the Issuer, Indenture Trustee and the Series A CP Note Registrar and any of their respective successors that:

(i) Such Person is duly authorized to purchase such Series A CP Notes and its purchase of investments having the characteristics of such Series A CP Notes is authorized under, and not directly or indirectly in contravention of, any law, charter, trust instrument or other operative document, investment guidelines or list of permissible or impermissible investments that is applicable to the investor; and

(ii) Such Person understands that each holder of such Series A CP Note, by virtue of its acceptance thereof, assents to the terms, provisions and conditions of this Indenture.

(e) Each Prospective Owner of a Series A CP Note shall represent and warrant in writing, in substantially the form set forth in Exhibit B hereto, as applicable, to the Issuer, the Indenture Trustee and the Series A CP Note Registrar and any of their respective successors that:

(i) Such Person is a QIB or QP and is acquiring such Series A CP Note for its own account or for the account of one or more QIBs or QPs for whom it is authorized to act; and

(ii) Such Person understands that such Series A CP Notes have not been registered under the Securities Act, and that, if in the future it decides to offer, resell, pledge or otherwise transfer such Series A CP Notes, such Series A CP Notes may be offered, resold, pledged or otherwise transferred only to a person whom the seller reasonably believes is a QIB or QP that is purchasing such Notes for its own account or for the account of a QIB or QP, in each case in compliance with the requirements of this Indenture.

(f) In the event that a Series A CP Note is transferred to a Person that does not meet the requirements of this Section 2.05, such transfer shall be of no force and effect, shall be void ab initio, and shall not operate to transfer any rights to such Person, notwithstanding any instructions to the contrary to the Issuer, the Trustee or any intermediary; and neither the Indenture Trustee nor the Issuer shall make any payments on such Note for as long as such Person is the Series A CP Noteholders of such Series A CP Note.

(g) Each Holder of a Series A CP Note (or Note Owner) desiring to effect such a transfer shall, and does hereby agree to, indemnify the Issuer and the Trustee against any liability that may result if the transfer is not so exempt or is not made in accordance with federal and state securities laws and any other restrictions specified in this Section 2.05. Each holder of a Book-Entry Series A CP Note shall be deemed to have consented to such transfer restrictions.

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(h) The Trustee shall cause each Series A CP Note to contain a legend substantially similar to the applicable legend provided in Exhibit A hereto stating that transfer of such Notes is subject to certain restrictions as set forth herein.

(i) Any purported transfer of a Series A CP Note (or any interest therein) not in accordance with this Section 2.05 shall be null and void and shall not be given effect for any purpose hereunder.

(j) Neither the Trustee nor the Issuer will have the ability to monitor transfers of the Series A CP Notes while they are in book-entry form and neither will have any liability for transfers of Book-Entry Series A CP Notes in violation of any of the transfer restrictions described in this Section 2.05.

Section 2.06 Mutilated, Destroyed, Lost or Stolen Series A CP Notes.

If (a) the Trustee receives evidence to its reasonable satisfaction of the destruction, loss or theft of any Series A CP Note, and there is delivered to the Trustee such security or indemnity as may be required by it to hold the Issuer, the Transfer Agent and Registrar and the Trustee harmless or (b) any mutilated Series A CP Note is surrendered to the Trustee, then, in the absence of notice to the Issuer, the Transfer Agent and Registrar or the Trustee that the Series A CP Note has been acquired by a bona fide purchaser, the Issuer shall execute, and the Trustee shall authenticate and deliver, in exchange for or in lieu of any such mutilated, destroyed, lost or stolen Series A CP Note, a replacement Series A CP Note of like tenor (including the same date of issuance) and principal amount, bearing a number not contemporaneously outstanding.

However, if the mutilated, destroyed, lost or stolen Series A CP Note shall have become or within seven days shall be due and payable, or shall have been selected or called for redemption, instead of issuing a replacement Series A CP Note, the Issuer may pay the Series A CP Note without its surrender, except that any mutilated Series A CP Note shall be surrendered. If a bona fide purchaser of the original Series A CP Note in lieu of which a replacement Series A CP Note was issued (or payment was made) presents for payment the original Series A CP Note, the Issuer and the Trustee shall be entitled to recover the replacement Series A CP Note (or the payment) from the Person to whom it was delivered or any Person taking the replacement Series A CP Note from the Person to whom the replacement Series A CP Note was delivered or any assignee of that Person, except a bona fide purchaser.

Upon the issuance of any replacement Series A CP Note under this Section, the Issuer may require the payment by the Holder of the Series A CP Note of a sum sufficient to cover any tax or other governmental charge that may be imposed on that issuance and any other reasonable expenses (including the fees and expenses of the Trustee or the Transfer Agent and Registrar) connected with that issuance.

Every replacement Series A CP Note issued pursuant to this Section in replacement of any mutilated, destroyed, lost or stolen Series A CP Note shall constitute complete and indefeasible evidence of a claim against the Issuer secured by the lien of this Indenture, as if originally issued, whether or not the destroyed, lost or stolen Series A CP Note shall be found at any time, and shall be entitled to all the benefits of this Indenture equally and proportionately with any other duly issued Series A CP Notes.

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The provisions of this Section are exclusive and shall preclude all other rights and remedies regarding the replacement or payment of mutilated, destroyed, lost or stolen Series A CP Notes.

Section 2.07 Persons Deemed Owners.

Prior to due presentation for registration of transfer of any Series A CP Note, the Issuer, the Trustee and any agent of the Issuer or the Trustee shall treat the Person in whose name any Series A CP Note is registered as the owner of that Series A CP Note for the purpose of receiving distributions pursuant to the terms herein and for all other purposes whatsoever. Neither the Issuer, the Trustee, nor any agent of the Issuer or the Trustee shall be affected by any notice to the contrary.

Section 2.08 Appointment of Paying Agent.

The Trustee shall always be a Paying Agent for the Series A CP Notes (and the Trustee hereby accepts its appointments as a Paying Agent hereunder). The Issuer may appoint additional Paying Agents and may vary or terminate the appointment of any Paying Agent other than the Trustee. Any additional Paying Agent appointed by the Issuer shall be a bank or other financial institution which, on the date of appointment, has short-term debt ratings of at least "P-1" from Moody's and "A-1" from Standard & Poor's.

Notice of all changes in the identity or specified office of a Paying Agent shall be delivered promptly to the Series A CP Noteholders by the Issuer.

Section 2.09 Access to List of Series A CP Noteholders' Names and Addresses.

(a) The Transfer Agent and Registrar shall furnish or cause to be furnished to the Issuer, the Trustee, any Owner or any Paying Agent requesting it a list of the names and addresses of the Series A CP Noteholders within five Business Days after receipt by the Transfer Agent and Registrar of a written request therefor from that Person; provided, however, that in the case of a person claiming to be an Owner requesting a list of such names and addresses the Transfer Agent and Registrar shall not furnish such list until the Issuer shall have authorized release of such list and the Trustee shall have no liability for such release or the identity of the requesting person.

(b) Every Series A CP Noteholder, by receiving and holding a Series A CP Note, agrees that none of the Issuer, the Trustee, the Transfer Agent and Registrar nor any of their respective agents and employees shall be held accountable for the disclosure of any information as to the names and addresses of the Series A CP Noteholders pursuant to clause (a) above.

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Section 2.10 Cancellation.

All Series A CP Notes surrendered for payment, registration of transfer, exchange, or redemption shall be delivered to the Trustee and promptly canceled by it in accordance with its customary procedures. The Issuer may at any time deliver to the Trustee for cancellation any Series A CP Notes previously authenticated and delivered that the Issuer may have acquired in any lawful manner. All Series A CP Notes so delivered shall be promptly canceled by the Trustee in accordance with its customary procedures. No Series A CP Notes shall be authenticated in lieu of or in exchange for any Series A CP Notes canceled as provided in this Section, except as expressly permitted by this Indenture. All canceled Series A CP Notes held by the Trustee shall be disposed of by it in its customary manner unless the Issuer directs by a timely order that they be returned to it. Promptly upon the written request of the Issuer, Trustee shall cancel and return to the Issuer issued Certificated Series A CP Notes in its possession at the time of such request.

Section 2.11. Book Entry Series A CP Notes.

The Series A CP Notes will be issued in the form of typewritten Notes or Master Notes representing Book Entry Series A CP Notes, to be delivered to, or to the Trustee, as custodian for, the Clearing Agency, by, or on behalf of, the Issuer. The Book Entry Series A CP Notes shall be registered initially on the Note Register in the name of Cede & Co., the nominee of the Clearing Agency, and no Owner of Book Entry Series A CP Notes thereof will receive a Definitive Note representing such Series A CP Note Owner's interest in such Book-Entry Note, except as provided in Section 2.13. Unless and until definitive, fully registered Notes (the "Definitive Notes") have been issued to such Owners of Book Entry Series A CP Notes pursuant to Section 2.13:

- (i) the provisions of this Section shall be in full force and effect;
- (ii) the Note Registrar, the Trustee and the Issuer shall be entitled to deal with the Clearing Agency for all purposes of this Indenture (including the payment of principal of and interest on the Book Entry Series A CP Notes and the giving of instructions or directions hereunder) as the sole holder of the Book Entry Series A CP Notes, and shall have no obligation to the Owners of Book Entry Series A CP Notes;
- (iii) to the extent that the provisions of this Section conflict with any other provisions of this Indenture, the provisions of this Section shall control;
- (iv) the rights of Owners of Book Entry Series A CP Notes shall be exercised only through the Clearing Agency and shall be limited to those established by law and agreements between such Owners of Book Entry Series A CP Notes and the Clearing Agency and/or the Clearing Agency Participants pursuant to the Note Depository Agreement. Unless and until Definitive Notes are issued pursuant to Section 2.13, neither the Trustee nor the Note Registrar shall register any transfer of a beneficial interest in a Book-Entry Note; and the initial Clearing Agency will make book entry transfers among the Clearing Agency Participants and receive and transmit payments of principal of and interest on the Book Entry Series A CP Notes to such Clearing Agency Participants; and

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(v) whenever this Indenture requires or permits actions to be taken based upon instructions or directions of Holders of Notes evidencing a specified percentage of the Outstanding balance of the Notes, the Clearing Agency shall be deemed to represent such percentage only to the extent that it has received instructions to such effect from Owners of Book Entry Series A CP Notes and/or Clearing Agency Participants owning or representing, respectively, such required percentage of the beneficial interest in the Book Entry Series A CP Notes and has delivered such instructions to the Trustee.

Section 2.12 Notices to Clearing Agency.

Whenever a notice or other communication to the Series A CP Noteholders is required under this Indenture, unless and until Definitive Notes shall have been issued to such Owners of Book Entry Series A CP Notes pursuant to Section 2.13, the Trustee shall give all such notices and communications specified herein to be given to Owners of Book Entry Series A CP Notes to the Clearing Agency, and shall have no obligation to such Series A CP Noteholders.

Section 2.13. Definitive Notes.

If (i) the Clearing Agency is no longer willing or able to properly discharge its responsibilities with respect to the Book Entry Series A CP Notes and the Issuer is unable to locate a qualified successor or (ii) after the occurrence of an Event of Default hereunder, Series A CP Note Owners of the Book Entry Series A CP Notes representing beneficial interests aggregating at least a majority of the Outstanding Balance of the Book Entry Series A CP Notes advise the Clearing Agency in writing that the continuation of a book entry system through the Clearing Agency is no longer in the best interests of such Series A CP Note Owners, then the Clearing Agency shall notify all Owners of Book Entry Series A CP Notes, the Trustee and the Note Registrar of the occurrence of any such event and of the availability of Definitive Notes to Owners of Book Entry Series A CP Notes requesting the same. Upon surrender to the Note Registrar of the typewritten Notes representing the Book Entry Series A CP Notes by the Clearing Agency, accompanied by registration instructions, the Issuer shall execute and the Note Registrar shall authenticate the Definitive Notes in accordance with the instructions of the Clearing Agency. None of the Issuer, the Note Registrar, or the Trustee shall be liable for any delay in delivery of such instructions and may conclusively rely on, and shall be protected in relying on, such instructions. Upon the issuance of Definitive Notes, the Trustee and the Issuer shall recognize the Holders of such Definitive Notes as Noteholders.

Section 2.14 Series A CP Note Issuance Procedures.

(a) On the initial Closing Date, the Issuer shall execute and the Trustee shall authenticate and deliver the Master Series A CP Note, which shall not contain a specified principal amount but shall represent the entire amount of Series A CP Notes Outstanding from time to time hereunder; provided that the maximum principal aggregate amount of the Series A CP Notes shall not exceed \$300,000,000 at any time. The Master Series A CP Note shall be held by Trustee as Issuing Agent and custodian for the Depository.

(b) From time to time during the term of this Indenture and subject to the terms and conditions hereof, and upon the Trustee's timely receipt of written or teletype instructions, notice transmitted directly to the Trustee's computers or in such manner as the Trustee then employs as its normal business practice (collectively, "Instructions"), not later than 5:00 p.m., New York City time, on a Business Day, from an Authorized Representative, on the day

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immediately preceding the day of issuance ( to be followed up by the Issuer's entry in the "MMI/OIS" system (or any successor to such system) not later than 11:00 a.m., New York City time on the day of issuance) of any Definitive Series A CP Notes (in the case of instructions from an Authorized Representative) the Trustee shall withdraw the respective Definitive Series A CP Notes from safekeeping and in accordance with the Instructions so received, take the following actions with respect to each such Definitive Series A CP Notes:

- (i) date each such Definitive Series A CP Notes the date of issuance thereof (which shall be a Business Day) and insert the maturity date thereof (provided that the Authorized Representative shall ensure that such date is a Business Day and that it shall not less than 27 days or more than 270 days from the date of issue) and the face amount (provided that the Authorized Representative shall ensure that such face amount is not less than \$100,000) thereof in figures;
- (ii) authenticate (by countersigning) each such Definitive Series A CP Notes in the appropriate space provided thereon; and
- (iii) deliver in the Borough of Manhattan south of Chambers Street each such Definitive Series A CP Notes to the person designated by such Authorized Representative against Payment in immediately available funds of the principal amount of Series A CP Notes.

(c) In the case of Book-Entry Series A CP Notes, from time to time during the term of this Indenture and subject to the terms and conditions hereof, and upon the Trustee's timely receipt of written or telecopy instructions, notice transmitted directly to the Trustee's computers or in such a manner as the Trustee then employs as its normal business practices, and confirmed by the Issuer by the submission of an Issuance Notice, not later than 5:00 p.m., New York City time, on a Business Day, from an Authorized Representative, on the day immediately preceding the day of issuance ( to be followed up by the Issuer's entry in the "MMI/OIS" system (or any successor to such system) not later than 11:00 a.m., New York City time on the day of issuance) of any Book-Entry Series A CP Notes (in the case of instructions from an Authorized Representative) the Trustee shall give issuance instructions for the issuance of Book-Entry Series A CP Notes to the Clearing Agency in a manner set forth in, and take other actions as are required by, the Letter of Representations and the Certificate Agreement. Instructions for the issuance of Book-Entry Series A CP Notes shall include the following information with respect to each Book-Entry Series A CP Note:

- (i) the date of issuance of each such Book-Entry Series A CP Note (which shall be a Business Day);
- (ii) the maturity date of each such Book-Entry Series A CP Note (provided that the Authorized Representative shall ensure that such date is a Business Day and that it shall not be less than 27 days or more than 270 days from the date of issue);
- (iii) the face amount (provided that the Authorized Representative shall ensure that such face amount is not less than \$100,000) in figures; and

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(iv) the Interest Rate or discount factor.

(d) Trustee shall send a report (by telecopy or other means permitted hereunder) except if otherwise provided to the Issuer on a monthly basis of the Trustee's issuance of Series A CP Notes under this Section 2.14, including the maturity date and face amounts of each Series A CP Note issued.

(e) Instructions must be received by the Trustee by 5:00 p.m., New York City time, on a Business Day, on the day immediately preceding the day of issuance, for physical issuance or for book-entry issuance ( to be followed up by the Issuer's entry in the "MMI/OIS" system (or any successor to such system) not later than 11:00 a.m., New York City time on the day of issuance).

(f) The Issuer understands that although Trustee has been instructed to deliver Series A CP Notes against payment, delivery of Series A CP Notes may, in accordance with the custom prevailing in the commercial paper market, be made before receipt of payment in immediately available funds. Therefore, once Trustee has delivered a Series A CP Note as instructed by the Issuer, the Issuer shall bear the risk that a Series A CP Note purchaser fails to remit payment for the Series A CP Note. Trustee shall have no liability to the Issuer for any failure or inability on the part of a purchaser to make payment for Series A CP Notes. Nothing in this Agreement shall require Trustee to purchase any Series A CP Note or expend its own funds for the purchase price of a Series A CP Note or Series A CP Notes.

(g) Except as may otherwise be provided in the Letter of Representations, if at any time the Issuer instructs Trustee to cease issuing Definitive Series A CP Notes and to issue only Book-Entry Series A CP Notes, the Trustee agrees that all Series A CP Notes will be issued as Book-Entry Series A CP Notes and that no Definitive Series A CP Notes shall be exchanged for Book-Entry Series A CP Notes unless and until the Trustee have received written instructions from an Authorized Representative to the contrary.

(h) It is understood that Trustee is not under any obligation to assess or review the financial condition or credit worthiness of any person to or for whose account Trustee is instructed to deliver a Series A CP Note pursuant to instructions from an Authorized Representative or to advise the Issuer as to the results of any such appraisal or investigation Trustee may have conducted on its own or of any adverse information concerning any such person that may in any way have come to Trustee's attention.

(i) It is understood that the Clearing Agency may request the delivery of Definitive Series A CP Notes in exchange for Book-Entry Series A CP Notes upon the termination of the Clearing Agency's services pursuant to the Clearing Agency Letter of Representations. Accordingly, upon such termination, Trustee is authorized to complete and deliver Definitive Series A CP Notes in partial or complete substitution for Book-Entry Series A CP Notes of the same face amount and maturity as requested by the Clearing Agency. Upon the completion or delivery of any such Definitive Series A CP Notes, Trustee shall annotate its records regarding the Master Note with respect to such Book-Entry Series A CP Notes to reflect a corresponding

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reduction in the face amount of the Outstanding Book-Entry Series A CP Notes. Trustee's authority to so complete and deliver such Definitive Series A CP Notes shall be irrevocable at all times from the time a Book-Entry Series A CP Note is purchased until the indebtedness evidenced thereby is paid in full.

(j) If Trustee shall receive instructions (confirmed in writing in accordance with this Indenture) from the Issuer not to issue or deliver Series A CP Notes, until revoked in writing or superseded by further written instructions from the Issuer, Trustee shall not issue or deliver Series A CP Notes, provided, however, that, Trustee shall be required to deliver Series A CP Notes in respect of agreements for the sale of Series A CP Notes concluded by an Authorized Representative prior to receipt by the Authorized Representative of notice of such instructions from the Issuer, if the Authorized Representative shall have confirmed such delivery to Trustee in writing prior to Trustee's delivery of the Series A CP Notes. For purposes of this Section (i), Trustee may rely on written notice given or delivered to Trustee by an Authorized Representative as to whether any particular Series A CP Notes are to be issued in respect of such agreements concluded by such Authorized Representative, and Trustee shall have no obligation to make any other or further investigation.

(k) Each issuance of Series A CP Notes hereunder shall be subject to the conditions (to be monitored by the Issuer) that: (i) each representation, warranty and covenant of the Issuer contained in this Indenture is satisfied on the date of such issuance, (ii) there shall be no occurrence and continuance of an Event of Default that remains uncured, and (iii) there shall have been confirmed by the Securities Intermediary to the Trustee, on or prior to 12:00 noon, New York City time, that there is no Margin Value Deficiency (i.e., the aggregate Series A CP Note Principal Outstanding immediately after such issuance, taking into account any concurrent maturities and redemptions, shall not exceed the Margin Value), and no issuance shall occur unless these conditions are satisfied.

Section 2.15 Payment of Interest and Principal; Optional Redemption.

(a) Each Series A CP Note shall either (i) be sold at a discount to the face or par amount thereof and not bear interest or (ii) accrue interest at the stated Series A CP Note Rate and such interest shall be payable on each Interest Payment Date. If Series A CP Notes are issued with Interest, such Interest shall be computed on each such Series A CP Note on the basis of a 360-day year and the actual number of days elapsed in each Interest Accrual Period. The principal of the Series A CP Notes shall be payable on the related Maturity Date. Notwithstanding the foregoing, the entire unpaid principal amount of the Series A CP Notes shall be due and payable, if not previously paid, on the date on which an Event of Default shall have occurred and be continuing, if the Trustee, or Majority CP Holders have declared the Series A CP Notes to be immediately due and payable in the manner provided in Section 5.02. All principal payments on the Series A CP Notes shall be made to the Series A CP Noteholders entitled thereto.

(b) By 11:00 a.m., New York City time, on each Payment Date, Issuer shall transfer to Paying Agent for deposit in the Note Account immediately available funds at least equal to the sum of any Series A CP Note Interest and the aggregate principal amount of all Series A CP Notes maturing on such Payment Date. In the event Issuer fails to make the payment by such

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time, the Trustee may provide DTC with a "refusal to pay" notice. Paying Agent shall then pay on the Payment Date to each holder of the Series A CP Notes (which may, in the case of Book-Entry Series A CP Notes held by Paying Agent pursuant to the Certificate Agreement, be the Clearing Agency or a nominee of the Clearing Agency), (i) Series A CP Note Interest, if any, and (ii) the principal amount of all Series A CP Notes maturing on such Payment Date that are presented to Paying Agent for payment at or prior to 3:00 p.m., New York City time, on such day (or if presented after 3:00 p.m., New York City time, then on the next succeeding Business Day) to the extent of funds available in the Note Account. Upon payment by Paying Agent as aforesaid, Paying Agent shall mark Definitive Series A CP Note(s) presented as paid, cancel such Definitive Series A CP Note(s) and dispose of such cancelled Definitive Series A CP Notes in accordance with Section 2.10 of this Indenture. After payment of any matured Book-Entry Series A CP Note, Paying Agent shall also annotate its records to reflect the remaining aggregate Outstanding principal amount of Book-Entry Series A CP Notes in accordance with the Letter of Representations.

(c) Any Series A CP Note Interest and principal payable on the Maturity Date of any Definitive Series A CP Note shall be paid on the applicable Payment Date (to the extent of funds available in the Note Account) to the Person in whose name such Series A CP Note is registered on the Record Date by check mailed first-class postage prepaid to such Person's address as it appears on the Note Register on such Record Date or, upon written request made to the Paying Agent with a copy to the Trustee, if the Trustee is not the Paying Agent, at least five Business Days prior to the related Record Date, by the Holder of a Series A CP Note by wire transfer in immediately available funds to an account specified in the request and at the expense of such Series A CP Noteholder.

(d) Upon the request of a Series A CP Noteholder, the Issuer may agree to (but in no event shall Issuer be required to) redeem some or all of such Noteholder's Series A CP Notes. If the Issuer agrees to such a redemption, the Issuer shall immediately notify the Trustee of the particular Series A CP Notes to be redeemed, including the related Maturity Date (and the new redemption date), the principal amount of the redemption and the CUSIP number. The Trustee and the Issuer shall agree upon the procedures to be followed to execute such redemption request. For all purposes hereunder, the redemption date shall be deemed to be the new Maturity Date for such Series A CP Notes so redeemed.

#### Section 2.16 CUSIP Numbers.

The Issuer in issuing the Series A CP Notes may use "CUSIP" numbers (if then generally in use), and, if so, the Trustee shall use "CUSIP" numbers in notices of redemption as a convenience to Holders; provided that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Series A CP Notes or as contained in any notice of a redemption and that reliance may be placed only on the other identification numbers printed on the Series A CP Notes, and any such redemption shall not be affected by any defect in or omission of such numbers. The Issuer will promptly notify the Trustee in writing of any change in the "CUSIP" numbers.

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**Article III.**

**REPRESENTATIONS AND COVENANTS OF ISSUER**

Section 3.01 Representations and Warranties of the Issuer—General. The Issuer hereby represents and warrants to the Trustee and the Series A CP Noteholders, as of the Closing Date:

- (a) *Organization and Good Standing*. The Issuer is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has full power, authority and legal right to own its properties and conduct its business as such properties are presently owned and such business is presently conducted, and to execute, deliver and perform its obligations under this Indenture and the Collateral Account Control Agreement and to execute and deliver to the Trustee the Series A CP Notes pursuant hereto.
- (b) *Due Authorization; Enforceability*. The execution and delivery of this Indenture and the Collateral Account Control Agreement have been duly authorized by the Issuer by all necessary action on its part. This Indenture, and the Collateral Account Control Agreement each constitutes the legal, valid and binding obligation of the Issuer, enforceable against it in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereinafter in effect, affecting the enforcement of creditors' rights in general and except as such enforceability may be limited by general principles of equity (whether considered in a proceeding at law or in equity).
- (c) *No Conflicts*. The execution, delivery and performance of this Indenture and the Collateral Account Control Agreement, the execution and delivery of the Notes, and the performance of the transactions contemplated under the Basic Documents by the Issuer, do not (i) contravene its Articles of Incorporation or any other agreements pursuant to which it is organized, (ii) violate any provision of, or require any filing (except for the filings under the UCC required by this Agreement, each of which has been duly made and is in full force and effect), registration, consent or approval under, any law, rule, regulation, order, writ, judgment, injunction, decree, determination or award presently in effect having applicability to the Issuer, except for such filings, registrations, consents or approvals as have already been obtained and are in full force and effect, (iii) result in a breach of or constitute a default or require any consent under any indenture or loan or credit agreement or any other agreement, lease or instrument to which the Issuer is a party or by which it or its properties may be bound or affected except those as to which a consent or waiver has been obtained and is in full force and effect and an executed copy of which has been delivered to the Trustee, or (iv) result in, or require, the creation or imposition of any Lien upon or with respect to any of the properties now owned or hereafter acquired by the Issuer other than as specifically contemplated by this Agreement.
- (d) *Use of Proceeds*. No proceeds of the issuance of any Series A CP Note will be used by the Issuer to purchase or carry any margin security within the meaning of, or otherwise contravene or conflict with any of, Regulations T, U or X of the Board of Governors of the Federal Reserve System.

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- (e) *Certain Security Interest Representations.* The Issuer further represents and warrants as follows with respect to the security interest in the Collateral granted to the Trustee hereunder:
- (i) This Agreement creates a valid and continuing security interest (as defined in the UCC) in the Collateral pledged hereunder in favor of the Trustee, which security interest is prior to all other Liens and is enforceable as such as against creditors of and purchasers from the Issuer.
  - (ii) The Issuer has taken or caused to be taken all steps necessary to perfect the security interest against the Collateral.
  - (iii) At the time of conveyance hereunder the Issuer owned and had good and marketable title to the Collateral free and clear of any Lien, claim or encumbrance of any Person (other than Permitted Liens and Liens, if any, which by their terms are released in full upon conveyance hereunder).
  - (iv) The Issuer has caused the filing of all appropriate financing statements in the proper filing office in the appropriate jurisdictions under applicable law in order to perfect the grant of the Collateral to the Trustee hereunder.
  - (v) Other than the transfer to the Trustee pursuant to this Agreement, and any Liens or encumbrances which by their terms or otherwise are released in full upon conveyance hereunder, the Issuer has not pledged, assigned, sold, granted a security interest in, or otherwise conveyed any of the Collateral. The Issuer has not authorized the filing of and is not aware of any financing statements against the Issuer that include a description of collateral covering the Collateral Notes other than any financing statement relating to the transfers hereunder or that has been or is being terminated or that relates to a Lien that is or was released in full upon or prior to the transfer hereunder. The Issuer is not aware of any judgment or tax lien filings against the Issuer.

For the purposes of the representations and warranties contained in this Section 3.01 and made by the Issuer on the initial Closing Date, "Series A CP Notes" shall mean the Series A CP Notes issued on such Closing Date. The representations and warranties set forth in this Section 3.01 shall survive the grant and assignment of the respective Collateral to the Trustee. The Issuer hereby represents and warrants to the Trustee, as of each Closing Date that the representations and warranties of the Issuer set forth in this Section 3.01 are true and correct as of such date. Upon discovery by the Issuer of a breach of any of the foregoing representations and warranties, the Issuer shall give written notice to the Series A CP Noteholders, within two (2) Business Days following such discovery.

#### Section 3.02 General Covenants of the Issuer.

The Issuer hereby covenants that:

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- (a) *Preservation of Legal Existence.* It will preserve and maintain its legal existence, rights, franchises and privileges in the jurisdiction of its formation, and qualify and remain qualified in good standing in each jurisdiction in which the ownership or lease of property or the conduct of its business requires such qualification, licenses or approvals.
- (b) *Reporting Requirements.* Unless the Trustee (upon written direction of a Majority of Series A CP Noteholders) shall otherwise consent in writing, the Issuer shall furnish to the Trustee and the Trustee will furnish to the Series A CP Noteholders:
- Event of Default.* As soon as possible, and in any event within five Business Days after the Issuer has knowledge of the occurrence of any Event of Default, a written statement of an Authorized Representative of the Issuer describing such event and the action that the Issuer proposes to take with respect thereto, in each case in reasonable detail.
- (c) *Issuer's Covenants and Agreements.* The Issuer will duly observe and perform all covenants and agreements of the Issuer set forth in this Indenture and the Collateral Account Control Agreement.
- (d) *Security Interests.* Except for the grants and assignments hereunder, the Issuer will not sell, pledge, assign or transfer to any other Person, or grant, create, incur, assume or suffer to exist any Lien (other than a Permitted Lien), on any Collateral, whether now existing or hereafter created or arising, or any interest therein; the Issuer will immediately notify the Trustee of the existence of any Lien (other than a Permitted Lien) on any Collateral; and the Issuer shall defend the right, title and interest of the Trustee in, to and under the Collateral, whether now existing or hereafter created or arising, against all claims of third parties claiming through or under the Issuer, including, but not limited to, the filing of any continuation statements required by applicable law.

Upon discovery by an Authorized Representative of the Issuer of a breach of any of the foregoing covenants, the Issuer shall give written notice to the other parties hereto, and to the Series A CP Noteholders, within two Business Days following such discovery. Upon receipt by a Designated Officer of the Trustee of written notice of a breach of any of the foregoing covenants, the Trustee shall give written notice to the other parties to hereto, and to the Series A CP Noteholders, within two Business Days following receipt of such written notice.

Section 3.03 Collateral Maintenance; Substitution; Trustee Daily Collateral Reports.

On the initial Closing Date, the Issuer shall have deposited in the Collateral Account, Eligible Collateral with a Margin Value of not less than the Obligation Amount. At or before 1:00 p.m. New York City time each Business Day thereafter, Securities Intermediary will determine the Margin Value of the Collateral, in accordance with Article III of the Collateral Account Control Agreement. If the Securities Intermediary notifies the Issuer at or before 1:00 p.m. New York City time on any Business Day of the existence of a Margin Deficiency (taking into account any new issuance, maturities or redemptions), then on or before 3:30 p.m. New York City time on such Business Day, the Issuer shall deliver to Securities Intermediary for deposit into the Collateral Account an amount of Collateral at least equal to the Margin Deficiency. If the Securities Intermediary notifies the Issuer after 1:00 p.m. New York City time

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on any Business Day of the existence of a Margin Deficiency, the Issuer shall use its best efforts to deliver on or before the close of business on such Business Day, to Securities Intermediary for deposit into the Collateral Account an amount of Collateral at least equal to the Margin Deficiency; provided, however, that in no case shall the Issuer deliver such Collateral after 1:00 p.m. New York City time on the following Business Day.

Assuming that Securities Intermediary has not received a Notice of Exclusive Control (in the form of Exhibit C hereto) from the Trustee, as Secured Party, pursuant to Section 5.04, and provided that there shall not be a Collateral Deficiency immediately after any substitution referred to herein, the Issuer shall be permitted at any time prior to 3:30 p.m. New York City time during any Business Day, to substitute new Eligible Collateral for existing Eligible Collateral in the Collateral Account having at least the same market value as the Eligible Collateral for which the substitution is made held; provided however that on any Business Day on which new Series A CP Notes are being issued, no such substitutions shall be permitted after 12:00 noon New York City time. Such substitutions shall be effectuated by the Securities Intermediary upon receipt of Oral or Written Instructions of the Issuer in the manner specified in Article III of the Collateral Account Control Agreement.

The Trustee shall obtain from the Securities Intermediary's data base, Access Edge, the information needed to prepare and shall prepare and deliver a Daily Collateral Report on each Business Day to the Issuer. The Daily Collateral Report shall be made available through GCT Investor Reporting to beneficial owners of the Series A CP Notes requesting such access.

#### Section 3.04 Money for Series A CP Note Payments to Be Held in Trust.

The Issuer will cause each Paying Agent other than the Trustee to execute and deliver to the Trustee an instrument in which that Paying Agent agrees with the Trustee that it will, and the Trustee hereby agrees in its capacity as Paying Agent, subject to the provisions of this Section, that it will:

- (i) hold all sums held by it for the payment of amounts due on the Series A CP Notes in trust for the benefit of the Persons entitled to them until those sums are paid to the Persons entitled to them or otherwise disposed of as provided in this Indenture, and pay those sums to the Persons entitled to them as provided in this Indenture;
- (ii) give the Issuer and the Trustee notice of any default by the Issuer in the making of any payment required to be made on the Series A CP Notes of which it has actual knowledge;
- (iii) at any time during the continuance of any payment default on the Series A CP Notes, upon the written request of the Trustee, forthwith pay to the Trustee all sums held in trust by it for the payment of Notes;
- (iv) immediately resign as a Paying Agent and forthwith pay to the Trustee all sums held by it in trust for the payment of Series A CP Notes if at any time it ceases to meet the standards required to be met for a Paying Agent at the time of its appointment; and

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(v) withhold from any payments made by it on any Series A CP Notes of any applicable withholding taxes imposed on them and comply with any applicable withholding reporting requirements.

To obtain the satisfaction and discharge of this Indenture or for any other purpose, the Issuer may at any time in writing direct any Paying Agent to pay to the Trustee all sums held in trust by the Paying Agent. Those sums shall be held by the Trustee upon the same trusts as those upon which they were held by the Paying Agent. Upon that payment by any Paying Agent to the Trustee, that Paying Agent shall be released from all further liability regarding that money.

Section 3.05 Unclaimed Funds.

On the request of the Issuer, any money deposited with the Trustee or any Paying Agent, or then held by the Issuer, in trust for the payment of the principal of or interest on any Series A CP Note and remaining unclaimed for two years after it has become due and payable shall be paid to the Issuer. The Holder of the Series A CP Note on which payment was due shall thereafter look only to the Issuer for payment as an unsecured general creditor. All liability of the Trustee or the Paying Agent regarding that trust money to the extent so paid to the Issuer shall thereupon cease. The Trustee or the Paying Agent, before being required to make any payment, may at the expense of the Issuer cause to be published once, in a newspaper of general circulation published in the English language and customarily published on each Business Day in New York, New York and in the city in which the principal corporate trust office of the Trustee is located, notice that such money remains unclaimed and that, after a date specified therein, which shall be not less than 30 days from the date of the publication, any unclaimed balance of that money then remaining will be repaid to the Issuer. The Trustee may also adopt and employ, at the expense of the Issuer, any other reasonable means of notification of a release of payment (including mailing notice of the release to Series A CP Noteholders whose Series A CP Notes have been called but have not been surrendered for redemption or whose right to monies payable but not claimed is determinable from the records of any Paying Agent, such notice to be mailed to the last address of record of each such Series A CP Noteholder).

Section 3.06 Successor Substituted.

Upon any consolidation or merger or any transfer of the assets of the Issuer substantially as an entirety, the Person formed by or surviving the consolidation or merger (if other than the Issuer) or the Person to which the transfer is made shall succeed to, and be substituted for, and may exercise every right and power of, the Issuer under this Indenture with the same effect as if that Person had been named as the Issuer. The entity that was the Issuer prior to the transfer shall be released from its obligations under this Indenture as Issuer immediately upon the effectiveness of the transfer, but shall not be released from any obligations or liabilities to the Trustee or the Series A CP Noteholders arising prior to such effectiveness.

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Section 3.07 Authorized Representative

The Issuer has furnished to the Trustee, and from time to time thereafter may furnish to the Trustee and shall furnish to you upon the Trustee's request, certificates ("Incumbency Certificates") of a responsible officer of the Issuer certifying the incumbency and specimen signatures of officers or agents of the Issuer authorized to execute Series A CP Notes on behalf of the Issuer by manual or facsimile signature and/or to take other action hereunder on behalf of the Issuer (each an "Authorized Representative"). Until the Trustee has received a subsequent incumbency certificate of the Issuer, the Trustee is entitled to conclusively rely on the last such certificate delivered to the Trustee for purposes of determining the Authorized Representatives. The Trustee shall not have any responsibility to the Issuer to determine by whom or by what means a facsimile signature may have been affixed on the Series A CP Notes, or to determine whether any facsimile or manual signature resembles the specimen signature(s) filed with the Trustee by a duly authorized officer of the Issuer. Any Series A CP Note bearing the manual or facsimile signature of a person who is an Authorized Representative on the date such signature is affixed shall be binding on the Issuer after the authentication thereof by Trustee notwithstanding that such person shall have died or shall have otherwise ceased to hold his office on the date such Series A CP Note is countersigned or delivered to the Trustee.

**Article IV.**

**SATISFACTION AND DISCHARGE**

Section 4.01 Satisfaction and Discharge.

This Indenture shall cease to be of further effect with respect to the Series A CP Notes, except as to (a) rights of registration of transfer and exchange, (b) substitution of mutilated, destroyed, lost or stolen Notes, (c) the rights of Series A CP Noteholders to receive payments of principal of and interest on the Notes, (d) the rights and immunities of the Trustee under this Indenture, including the rights of the Trustee under Section 6.07 and the obligations of the Trustee under Section 4.02 and (e) the rights of Series A CP Noteholders as beneficiaries of this Indenture regarding property deposited under Section 4.02 with the Trustee and payable to any of them, and the Trustee shall execute proper instruments acknowledging satisfaction and discharge of this Indenture with respect to those Series A CP Notes, on demand of and at the expense of the Issuer, when either:

- (i) All Series A CP Notes theretofore authenticated and delivered have been delivered to the Trustee for cancellation (other than (A) Series A CP Notes that have been destroyed, lost, or stolen and that have been replaced or paid as provided in Section 2.06 and (B) Series A CP Notes for whose full payment money has theretofore been deposited in trust or segregated and held in trust by the Issuer and thereafter repaid to the Issuer or discharged from such trust, as provided in Section 4.02); or
- (ii) (A) the Issuer has deposited or caused to be deposited with the Trustee all other sums payable hereunder by the Issuer; and  
(B) the Issuer has delivered to the Trustee an Officer's Certificate of the Issuer stating that all amounts payable under this Indenture to the Series A CP Noteholders have been paid.

Notwithstanding the satisfaction and discharge of this Indenture or the earlier resignation or removal of the Trustee, the obligations of the Issuer to the Trustee under Section 6.07 and of the Trustee to the Series A CP Noteholders under Section 4.02 shall survive such satisfaction and discharge.

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Section 4.02 Application of Trust Money.

All monies deposited with the Trustee pursuant to Section 4.01 shall be held in trust and applied by it in accordance with the provisions of the Series A CP Notes and this Indenture to make payments of all sums due and to become due on the Series A CP Notes for principal and interest to the Series A CP Noteholders for whose payment the monies have been deposited with the Trustee. These payments may be made either directly or through any Paying Agent, as the Trustee may determine. These monies need not be segregated from other funds except to the extent required herein.

**Article V.**

**DEFAULTS AND REMEDIES**

Section 5.01 Events of Default.

- (a) The occurrence of any one of the following shall constitute a default (each an "Event of Default") by Issuer hereunder: (i) if Issuer shall fail to pay any (A) Series A CP Note Principal, within five (5) days after the date on which such payment shall become due and payable, or declared due and payable, or (B) Series A CP Note Interest, if any, within five (5) days after the date on which such payment of interest shall become due and payable, or declared due and payable; (ii) if Issuer shall fail to pledge additional Collateral as required under Section 3.03 hereof; (iii) if Issuer shall default in the performance or observance of any other of its obligations under this Indenture or the Collateral Account Control Agreement and such default shall remain uncured for a period of fifteen (15) days after notice from Trustee; (iv) if any representation, warranty, statement, report or certificate made or delivered by Issuer or any of its officers, employees or agents, to the Trustee or Series A CP Noteholders as required hereunder, is not true and correct in any material respect when made or deemed made; (v) if Issuer shall (A) become insolvent, (B) not be paying its debts generally as such debts become due, (C) make an assignment for the benefit of creditors or cause or suffer any of their respective assets to come within the possession of any receiver, trustee or custodian, (D) have a petition filed by or against Issuer under the Bankruptcy Reform Act of 1978, as amended, or any similar law or regulation, (E) have any of its assets attached, seized or levied upon, or (F) otherwise become the subject of any insolvency or creditor enforcement proceedings, provided however, that any involuntary petition or other proceeding against Issuer shall not be an Event of Default unless an order for relief is entered or such proceeding remains undismissed for at least sixty (60) days; or (vi) if this Indenture, any Series A CP Note, or the Collateral Account Control Agreement, shall cease to be in full force and effect, shall be declared null and void, shall be revoked or terminated or shall be subject to any contest by Issuer as to their validity and/or enforceability, for any reason, or if Issuer shall for any reason deny any further liability to the Series A CP Noteholders hereunder and thereunder.

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- (b) Within five days after the occurrence of an Event of Default described in Section 5.01(iii) through (vi), the Issuer shall deliver to the Trustee written notice in the form of an Officer's Certificate stating the particulars of any event that with the giving of notice or the lapse of time or both would become an Event of Default, its status, and what action the Issuer is taking or proposes to take regarding the event.
  - (c) Upon the occurrence and during the continuance of any Event of Default, Issuer may not request the issuance of any additional Series A CP Notes under this Indenture, and Trustee may then forthwith cease authenticating and issuing any additional Series A CP Notes under this Indenture without any notice to Issuer.

Section 5.02 Acceleration of Maturity; Rescission and Annulment.

- (a) If an Event of Default in clause (v)(C), (D), (E) or (F) of the definition thereof shall occur, the unpaid principal amount of the Notes, together with accrued and unpaid interest on the Series A CP Notes through the date of acceleration, shall become immediately due and payable and no notice to such effect from the Issuer, any Series A CP Noteholder or any other Person to the Trustee shall be required. Upon the occurrence and during the continuance of an Event of Default described in Sections 5.01(i) or (ii), and upon the receipt of any notice of an Event of Default pursuant to Section 5.01(b), the Majority Series A CP Noteholders may declare all the Series A CP Notes to be immediately due and payable by a notice in writing to the Issuer and to the Trustee. Upon any such declaration the unpaid principal amount of the Notes, together with accrued and unpaid interest on the Series A CP Notes through the date of acceleration, shall become immediately due and payable.
- (b) If at any time a declaration of acceleration of maturity has been made but before a judgment or decree for payment of the money due has been obtained by the Trustee as provided in this Article, the Majority Series A CP Noteholders may rescind and annul the declaration and its consequences by written notice to the Issuer and the Trustee if:
  - (i) the Issuer has paid or deposited with the Trustee a sum sufficient to pay:
    - 1) all payments of principal of and interest on the Series A CP Notes and all other amounts that would then be due under this Indenture or upon the Series A CP Notes if the Event of Default giving rise to the acceleration had not occurred; and
    - 2) all sums paid or advanced by the Trustee and the reasonable compensation, expenses, disbursements and advances of the Trustee and their respective agents and outside counsel; and
  - (ii) all Events of Default, other than the nonpayment of the principal of the Series A CP Notes that has become due solely by such acceleration, have been cured or waived as provided in Section 5.14.

No such rescission shall affect any subsequent default or impair any right consequent thereto.

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Section 5.03 Collection of Indebtedness and Suits for Enforcement by Trustee.

The Issuer covenants that upon the acceleration of the maturity of the Series A CP Notes pursuant to Section 5.02 and the demand of the Trustee, the Issuer will immediately pay to the Trustee for the benefit of the Series A CP Noteholders the whole amount then due and payable on the Series A CP Notes for principal and interest, with interest upon the overdue principal and, to the extent that payments of such interest shall be legally enforceable, upon overdue installments of interest, in the order set forth herein and, in addition thereto, any further amount necessary to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel.

If the Issuer fails to pay these amounts forthwith upon the demand of the Trustee, the Trustee, in its own name and as Trustee of an express trust, may institute a proceeding for the collection of the sums so due and unpaid, and may prosecute the proceeding to judgment or final decree, and may enforce the same against the Issuer and collect the monies adjudged or decreed to be payable in the manner provided by law.

If an Event of Default occurs and is continuing, the Trustee may, in its discretion and subject to the provisions of Section 5.02, Section 5.12 and Section 6.01, proceed to protect and enforce its rights and the rights of the Series A CP Noteholders under this Indenture by whatever appropriate proceedings the Trustee may deem necessary to protect and enforce any of those rights, whether for the specific enforcement of any covenant or agreement contained in the Collateral Account Control Agreement or in aid of the exercise of any power granted in this Indenture, or to enforce any other proper remedy or legal or equitable right vested in the Trustee by law.

If proceedings relating to the Issuer under Title 11 of the United States Code or any other applicable federal or state bankruptcy, insolvency, or other similar law are pending, or if a receiver, assignee, or trustee in bankruptcy or reorganization, liquidator, sequestrator, or similar official has been appointed for or taken possession of the Issuer or its property, or if any other comparable judicial proceedings relating to the Issuer or the creditors or property of the Issuer are pending, then regardless of whether the principal of any Series A CP Notes shall then be payable by their terms or by declaration or otherwise and regardless of whether the Trustee has made any demand pursuant to this Section, the Trustee shall be entitled and empowered, by intervention in the proceedings or otherwise:

- (a) to file and prove a claim for the whole amount of principal and interest owing and unpaid on the Series A CP Notes, and to file any other papers or documents that may be appropriate to have the claims of the Trustee and of the Series A CP Noteholders allowed in any proceedings relating to the Issuer upon the Notes, or to the creditors or property of the Issuer,
- (b) to vote on behalf of the Series A CP Noteholders in any election of a trustee or a standby trustee in any arrangement, reorganization, liquidation, or other bankruptcy or insolvency proceedings or in any election of any Person performing similar functions in comparable proceedings, and

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- (c) to collect any monies or other property payable or deliverable on any such claims, and to distribute all amounts received on the claims of the Series A CP Noteholders and of the Trustee on their behalf,

and any trustee, receiver, liquidator, custodian, or other similar official is authorized by each of the Series A CP Noteholders to make payments to the Trustee, and, if the Trustee consents to payments going directly to the Series A CP Noteholders, to pay to the Trustee such amounts as shall be sufficient to cover reasonable compensation to the Trustee, each predecessor Trustee, and their respective agents, attorneys, and counsel, and all other expenses and liabilities incurred (including attorneys' fees and expenses), and all advances made, by the Trustee and each predecessor Trustee except as shall have been determined to have been caused by its own gross negligence or willful misconduct.

Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or vote for or accept or adopt on behalf of any Series A CP Noteholders any plan of reorganization, arrangement, adjustment, or composition affecting the Series A CP Notes or the rights of any Series A CP Noteholder, or to authorize the Trustee to vote regarding the claim of any Series A CP Noteholder in any such proceeding except, as aforesaid, to vote for the election of a trustee in bankruptcy or Person performing similar functions.

In any proceedings involving this Indenture or the Series A CP Notes the Trustee shall represent all the Series A CP Noteholders, and it shall not be necessary to make any Series A CP Noteholders parties to the proceedings.

#### Section 5.04 Remedies.

- (a) If an Event of Default has occurred and is continuing and the maturity of the Series A CP Notes has been accelerated, the Trustee shall immediately provide to the Securities Intermediary a Notice of Exclusive Control in the form of Exhibit C hereto, after which Trustee shall have sole and exclusive authority to issue Oral and Written Instructions with respect to the Collateral Account, and, subject to Section 5.05, Section 5.12 and Article VI hereof, shall do one or more of the following:
- (i) institute proceedings in its own name and as trustee for an express trust for the collection of all amounts then payable on the Series A CP Notes or under this Indenture (whether by declaration or otherwise), enforce any judgment obtained, and collect from the Collateral Account securing the Series A CP Notes monies adjudged due;
  - (ii) only if so instructed in writing by all Series A CP Noteholders, sell or liquidate all or a portion of the Collateral at one or more public or private sales called and conducted in accordance with Section 5.16 to the extent permitted by law; provided, however, that if the proceeds of such sale or liquidation distributable to the Series A CP Noteholders are insufficient to discharge in full all amounts then due and unpaid upon the Series A CP Notes for principal and interest, the Trustee shall not proceed with such sale or liquidation unless the Holders of 100% of the Series A CP Notes (other than any Series A CP Notes then held by the Issuer or any Affiliate thereof) consent in writing thereto;

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- (iii) institute proceedings from time to time for the complete or partial foreclosure of this Indenture with respect to the Collateral; and
  - (iv) exercise any remedies of a secured party under the UCC and take any other appropriate action to protect and enforce the rights and remedies of the Trustee or the Series A CP Noteholders under this Indenture.

For the purpose of determining the sufficiency or insufficiency in clause (ii) above, the Trustee shall be provided by the Series A CP Noteholders with and may conclusively rely upon an opinion of an independent investment banking or accounting firm of national reputation as to the feasibility of the proposed action and as to the sufficiency of the Collateral for these purposes.

- (b) The proceeds of the sale or other liquidation of the Collateral shall be distributed as follows:
  - 1) first, to the Trustee, all sums paid or advanced by the Trustee and the reasonable compensation, expenses, disbursements and advances of the Trustee and its respective agents and outside counsel; and
  - 2) second, to the payments of principal of and interest on the Series A CP Notes and all other amounts then due under this Indenture or upon the Series A CP Notes.
- (c) The Trustee may fix a record date and payment date for any payment to Series A CP Noteholders pursuant to this Section. At least 15 days before that record date, the Trustee shall mail to each Series A CP Noteholder and the Issuer a notice that states the record date, the payment date and the amount to be paid.

#### Section 5.05 Optional Preservation of Trust Assets.

If the Series A CP Notes have been declared to be payable under Section 5.02 following an Event of Default and the declaration and its consequences have not been rescinded and annulled, the Trustee may, but need not, elect to maintain possession of the Collateral. It is the intent of the parties to this Indenture and the Series A CP Noteholders that all principal of and interest on the Series A CP Notes be paid in full when due. The Trustee shall take direction from 100% of the Series A CP Noteholders in determining whether to maintain possession of the Collateral, and may rely upon an opinion of an independent investment banking or accounting firm of national reputation addressed to the Trustee as to the feasibility of the proposed action and as to the sufficiency of the Collateral for these purposes.

#### Section 5.06 Trustee May Enforce Claims Without Possession of Notes.

All rights of action and claims under this Indenture or the Series A CP Notes may be prosecuted and enforced by the Trustee without the possession of any of the Series A CP Notes or their production in any proceeding relating to them. Any proceeding instituted by the Trustee shall be brought in its own name as Trustee. Any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Series A CP Noteholders and any other parties entitled thereto upon which the judgment has been obtained.

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Section 5.07 Limitation on Suits.

No Series A CP Noteholder shall have any right to institute any proceedings, judicial or otherwise, regarding this Indenture, or for the appointment of a receiver or trustee, or for any other remedy under this Indenture, unless:

- (a) Series A CP Noteholders of not less than 25% of the Series A CP Notes have made written request to the Trustee to institute the proceeding in its own name as Trustee;
- (b) those Series A CP Noteholders have previously given written notice to the Trustee of a continuing Event of Default;
- (c) those Series A CP Noteholders have offered to the Trustee indemnity satisfactory to it against the costs, expenses, and liabilities to be incurred in compliance with their request;
- (d) the Trustee for 60 days after its receipt of that notice, request and offer of indemnity has failed to institute appropriate proceedings; and
- (e) no direction inconsistent with the written request has been given to the Trustee during the 60-day period by the Majority Series A CP Noteholders.

No one or more Series A CP Noteholders may in any manner whatever under any provision of this Indenture affect, disturb, or prejudice the rights of any other Series A CP Noteholder or obtain or seek to obtain priority or preference over any other Series A CP Noteholder or enforce any right under this Indenture, except in the manner provided in this Indenture and for the equal and ratable benefit of all the Series A CP Noteholders.

If the Trustee receives conflicting or inconsistent requests and indemnity from two or more groups of Series A CP Noteholders, each representing less than Majority Series A CP Noteholders, the Trustee in its sole discretion may determine what action, if any, shall be taken, notwithstanding any other provisions of this Indenture; provided, however, that the Trustee shall be under no obligation to act until it is directed by the Majority Series A CP Noteholders.

Section 5.08 Unconditional Rights of Series A CP Noteholders to Receive Principal and Interest.

Notwithstanding any other provision in this Indenture, each Series A CP Noteholder shall have the absolute and unconditional right to receive payment of the principal of and interest on its Series A CP Note as that principal and interest becomes due and payable and to institute suit for the enforcement of that payment. This right shall not be impaired without the consent of the affected Series A CP Noteholder.

Section 5.09 Restoration of Rights and Remedies.

If the Trustee or any Series A CP Noteholder has instituted any proceeding to enforce any right or remedy under this Indenture and that proceeding has been discontinued or abandoned, or has been determined adversely to the Trustee or to the Series A CP Noteholder, then the Issuer, the Trustee, and the Series A CP Noteholder shall, subject to any determination in that proceeding, be restored to their former positions under this Indenture, and thereafter all rights and remedies of the Trustee and the Series A CP Noteholders shall continue as though no proceeding had been instituted.

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Section 5.10 Rights and Remedies Cumulative.

No right, remedy, power, or privilege herein conferred upon or reserved to the Trustee or to the Series A CP Noteholders is intended to be exclusive of any other right, remedy, power, or privilege. Every right, remedy, power, or privilege shall be cumulative and in addition to every other right, remedy, power, or privilege given under this Indenture or now or hereafter existing at law or in equity or otherwise. The assertion or exercise of any right, remedy, power, or privilege shall not preclude any other further assertion or the exercise of any other appropriate right, remedy, power, or privilege.

Section 5.11 Delay or Omission Not Waiver.

No failure to exercise and no delay in exercising, on the part of the Trustee or of any Series A CP Noteholder or other Person, any right, remedy, power, or privilege upon any Event of Default shall impair that right, remedy, power, or privilege or constitute a waiver of it or of the Event of Default or an acquiescence in the Event of Default. Every right, remedy, power, or privilege given by this Article or by law to the Trustee or to the Series A CP Noteholders may be exercised as often as may be deemed expedient by the Trustee or by the Series A CP Noteholders, as the case may be.

Section 5.12 Rights of Series A CP Noteholders to Direct Trustee.

Majority Series A CP Noteholders may direct the time, method, and place of conducting any proceeding for any remedy available to the Trustee regarding the Series A CP Notes or exercising any trust or power conferred on the Trustee regarding the Notes.

Notwithstanding the foregoing and subject to Section 6.01:

- (a) the Trustee may decline any direction if the Trustee, after being advised by counsel, determines that the action so directed is in conflict with any rule of law or with this Indenture, and
- (b) the Trustee may decline any direction if the Trustee in good faith, by a Designated Officer of the Trustee, determines that the proceedings so directed would be illegal or involve the Trustee in personal liability or be unjustly prejudicial to Series A CP Noteholders not parties to that direction.

Section 5.13 Waiver of Past Defaults.

Prior to the declaration of the acceleration of the maturity of the Series A CP Notes as provided in Section 5.02 (except in the case of subsection (a)(ii) below), Majority Series A CP Noteholders may, on behalf of all the Series A CP Noteholders, waive in writing any past default on the Series A CP Notes and its consequences, except:

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- (a) a default in the payment of the principal or interest on any Series A CP Note (which may be waived only with the consent of all of the Series A CP Noteholders), or
  - (b) regarding any of the provisions under Section 9.02 that cannot be modified or amended without the consent of the Series A CP Noteholder of each outstanding Series A CP Note affected.

Upon any written waiver, the default shall cease to exist, and any Event of Default arising from it shall be deemed to have been cured for every purpose of this Indenture. No such waiver shall extend to any subsequent or other default or impair any right consequent to it.

#### Section 5.14 Undertaking for Costs.

All parties to this Indenture agree, and each Series A CP Noteholder by its acceptance of a Series A CP Note shall be deemed to have agreed, that in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken, suffered, or omitted by it as Trustee, any court may in its discretion require the filing by any party litigant in the suit of an undertaking to pay the costs of the suit, and that the court may in its discretion assess reasonable costs, including reasonable attorneys' fees and expenses, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by that party litigant. The provisions of this Section shall not apply to any suit instituted by the Trustee, to any suit instituted by any Series A CP Noteholders (in compliance with Section 5.07) holding in the aggregate not less than 25% of the principal balance of the outstanding Series A CP Notes, or to any suit instituted by any Series A CP Noteholder for the enforcement of the payment of the principal or interest on any Series A CP Note on or after the Payment Date on which the principal or interest was due (or, in the case of redemption, on or after the applicable redemption date).

#### Section 5.15 Waiver of Stay or Extension Laws.

The Issuer covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, that may adversely affect the covenants or the performance of this Indenture. The Issuer (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants that it will not hinder, delay, or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

#### Section 5.16 Sale of Trust Assets.

- (a) The method, manner, time, place, and terms of any sale of all or any portion of the Collateral pursuant to Section 5.04 shall be commercially reasonable. Any sale of the Collateral by the Trustee shall be deemed to have been commercially reasonable. The Trustee may from time to time postpone any sale by public announcement made at the time and place of the sale.

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- (b) In any sale of all or any portion of the Collateral pursuant to Section 5.04, any Series A CP Noteholder may bid for and purchase the property offered for sale, and upon compliance with the terms of the sale may hold, retain, and possess and dispose of the property, without further accountability, and may, in paying the purchase money for the property, deliver any outstanding Series A CP Notes or claims for interest on the Series A CP Notes in lieu of cash up to the amount that shall, upon distribution of the net proceeds of the sale, be payable thereon, and those Series A CP Notes, if the amounts so payable are less than the amount due on the Notes, and such Series A CP Notes shall be returned to the Series A CP Noteholder after being appropriately stamped to show partial payment.
  - (c) The Trustee may bid for and acquire any portion of the Collateral securing the Series A CP Notes in a public sale, and may pay all or part of the purchase price by crediting against amounts owing to the Trustee under this Indenture, including, without limitation, the costs, charges and expenses incurred by the Trustee in connection with the sale notwithstanding the provisions of Section 6.07.
  - (d) The Trustee shall execute and deliver an appropriate instrument of conveyance transferring its interest in any portion of the Collateral upon its sale. In addition, the Trustee is hereby irrevocably appointed the agent and attorney-in-fact of the Issuer to transfer and convey its interest in any portion of the Collateral upon its sale, and to take all action necessary to effect its sale. No purchaser or transferee of any portion of the Issuer's interest in the Collateral shall be bound to ascertain the Trustee's authority, inquire into the satisfaction of any conditions precedent, or see to the application of any monies.

Section 5.17 Action on Notes.

The Trustee's right to seek and recover judgment on the Series A CP Notes or under this Indenture shall not be affected by the seeking or obtaining of or application for any other relief under this Indenture. Neither the Lien of this Indenture nor any rights or remedies of the Trustee or the Series A CP Noteholders shall be impaired by the recovery of any judgment by the Trustee against the Issuer or by the levy of any execution under that judgment upon any portion of the Trust Assets or upon any of the assets of the Issuer. Any money or property collected by the Trustee shall be applied as specified in Section 5.04 of this Indenture.

Section 5.18 Limited Rights of Certain Series A CP Noteholders.

Neither the Issuer or any Affiliate thereof as Holders of any Series A CP Notes issued pursuant to this Indenture related thereto shall have any rights to direct the Trustee to take any action in respect of the Series A CP Notes pursuant to this Indenture.

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**Article VI.**

**THE TRUSTEE**

Section 6.01 Duties of Trustee.

- (a) If an Event of Default has occurred and is continuing and the Trustee has actual knowledge or written notice of that Event of Default, the Trustee shall, before receiving directions from Majority Series A CP Noteholders, exercise the rights and powers vested in it by this Indenture and use the same degree of care and skill in their exercise as a prudent Person would exercise or use under the circumstances in the conduct of his own affairs.
- (b) The Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Trustee. In the absence of willful misconduct or negligence on its part, the Trustee may conclusively rely (as to their truth and correctness) and shall be fully protected in relying upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture.
- (c) The Trustee, upon receipt of any resolutions, certificates, statements, opinions, reports, documents, orders; or other instruments furnished to the Trustee that are specifically required to be furnished pursuant to any provision of this Indenture, shall review them to determine whether they substantially conform to the requirements of this Indenture (but need not confirm or investigate the accuracy of mathematical calculations or other facts stated therein).
- (d) No provision of this Indenture shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:
  - (i) this subsection shall not be construed to limit the effect of subsection (b) of this Section;
  - (ii) the Trustee shall not be liable for any error of judgment made in good faith by a Designated Officer of the Trustee unless the Trustee was negligent in ascertaining the pertinent facts; and
  - (iii) the Trustee shall not be liable for any action taken, suffered or omitted to be taken by it in good faith in accordance with this Indenture or at the direction of Majority Series A CP Noteholders relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or for exercising any trust or power conferred upon the Trustee, under this Indenture. The Trustee shall not be liable for any action taken, suffered, or omitted to be taken by it in good faith at the direction of the Issuer.

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- (e) No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under this Indenture or in the exercise of any of its rights or powers if it has reasonable grounds for believing that repayment of its funds or indemnity satisfactory to it against any risk or liability is not reasonably assured to it.
  - (f) Every provision of this Indenture that in any way relates to the Trustee is subject to subsections (a), (b), (d) and (e) of this Section.
  - (g) The Trustee shall have no power to vary the Collateral, including (i) accepting any substitute Collateral, (ii) adding any other investment, obligation, or security to the Collateral or (iii) withdrawing investments from the Collateral.
  - (h) The Trustee shall have no responsibility or liability for investment losses on the Collateral.
  - (i) For all purposes under this Indenture, the Trustee shall not be deemed to have notice or knowledge of any Event of Default unless a Designated Officer of the Trustee has actual knowledge of the event or has received written notice of it. For the purposes of determining the Trustee's responsibility and liability under this Indenture, any reference to an Event of Default shall be construed to refer only to such event of which the Trustee is deemed to have notice as described in this subsection.

Section 6.02 Notice of Event of Default.

Upon the occurrence of any Event of Default of which a Designated Officer of the Trustee has actual knowledge or has received written notice, the Trustee shall transmit by mail notice of the occurrence of the event to all Series A CP Noteholders as their names and addresses appear on the Series A CP Note Register within 5 days after it receives written notice or obtains actual knowledge of the event.

Section 6.03 Rights of Trustee.

- (a) The Trustee may conclusively rely and shall fully be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, note or other document reasonably believed by it to be genuine and to have been signed or presented by the proper party or parties;
- (b) Whenever in the administration of this Indenture the Trustee deems it desirable that a matter be proved or established prior to taking, suffering or omitting any action, the Trustee (unless other evidence is specifically prescribed) may, in the absence of willful misconduct on its part, conclusively rely upon an Officer's Certificate of the Issuer;
- (c) As a condition to the taking, suffering or omitting of any action by it, the Trustee may consult with counsel, and the advice of counsel or any opinion of counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it in good faith and in reliance thereon;

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- (d) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture or to honor the request or direction of any of the Series A CP Noteholders pursuant to this Indenture, unless the Series A CP Noteholders shall have offered to the Trustee reasonable security or indemnity satisfactory to it against the costs, expenses and liabilities that might be incurred by it in compliance with the request or direction;
  - (e) The Trustee shall not be bound to make any investigation into the matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, note or other document, but the Trustee, in its discretion, may make any further inquiry or investigation into those matters that it deems appropriate, and, if the Trustee determines to inquire further, it shall be entitled to examine the books, records and premises of the Issuer, personally or by agent or attorney at the expense of the Issuer and shall incur no liability of any kind by reason of such inquiry or investigation;
  - (f) The Trustee may execute any of the trusts or powers under this Indenture or perform any duties under this Indenture either directly or through agents, attorneys, custodians or nominees and the Trustee shall not be responsible for (i) any misconduct or negligence on the part of any agent, attorney, custodians or nominees appointed with due care by it or (ii) the supervision of those agents, attorneys, custodians or nominees appointed with due care;
  - (g) The Trustee shall not be liable for any actions taken, suffered or omitted by it in good faith and believed by it to be authorized or within the discretion or rights conferred upon the Trustee by this Indenture;
  - (h) The Trustee shall not be liable for any actions taken, suffered or omitted by it in good faith based upon instructions or notices contemplated in this Indenture which the Trustee reasonably believed in good faith to have been given by an Authorized Representative; and
  - (i) The rights, privileges, protections, immunities and benefits given to the Trustee, including, without limitation, its right to be indemnified, are extended to, and shall be enforceable by, the Trustee in each of its capacities hereunder, and each agent, custodian and other Person employed to act hereunder.
  - (j) The Bank of New York Mellon, in whatever capacity acting, shall have no liability whatsoever for the action or inaction of any Clearing Agency.
  - (k) Trustee is authorized to utilize any generally recognized pricing information service (including brokers and dealers of securities) or may rely on prices provided by the Securities Intermediary in order to perform its valuation responsibilities hereunder, and the parties hereto agree that Trustee shall not be liable for any loss, damage or expense (including attorney's fees) incurred as a result of errors or omissions of any such pricing information service, broker or dealer, or in any prices provided by the Securities Intermediary.

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Section 6.04 Not Responsible for Recitals or Issuance of Notes.

The recitals contained in this Indenture and in the Notes, except the certificate of authentication of the Trustee, shall be taken as the statements of the Issuer, and the Trustee assumes no responsibility for their correctness. The Trustee makes no representation as to the validity or sufficiency of this Indenture, the Notes, or any related document. The Trustee shall not be accountable for the use or application by the Issuer of the proceeds from the Notes.

Section 6.05 May Hold Notes.

The Trustee, any Paying Agent, any Transfer Agent and Registrar, or any other agent of the Issuer, in its individual or any other capacity, may become the owner or pledgee of Series A CP Notes and may otherwise deal with the Issuer with the same rights it would have if it were not Trustee, Paying Agent, Transfer Agent and Registrar, or other agent.

Section 6.06 Money Held in Trust.

Any money held by the Trustee in trust under this Indenture need not be segregated from any other funds held by the Trustee in trust under this Indenture except to the extent required by this Indenture. The Trustee shall be under no liability for interest on any money received by it under this Indenture except as otherwise agreed upon in writing by the Trustee.

Section 6.07 Compensation, Reimbursement and Indemnification.

- (a) The Issuer agrees:
- (i) to pay the Trustee the Trustee fees set forth in the Trustee Fee Letter;
  - (ii) except as otherwise expressly provided in this Indenture, to reimburse the Trustee upon its request, and in accordance with the Trustee Fee Letter, for all expenses, disbursements, and advances incurred or made by the Trustee pursuant to this Indenture (including all costs and expenses incurred by the Trustee exercising any remedies under this Indenture and the reasonable compensation and the expenses and disbursements of its agents and counsel, except any such expense, disbursement, or advance that shall be determined to have been caused by its negligence or willful misconduct); and
  - (iii) to indemnify the Trustee, its officers, directors, employees, and agents against any loss, liability, expense, damage, or injury suffered or sustained without negligence or willful misconduct on its part, arising in connection with the acceptance or administration of this trust, including the costs and expenses of defending itself against any claim or liability from the exercise or performance of any of its powers or duties under this Indenture.
- (b) The Trustee hereby agrees not to cause the filing of a petition in bankruptcy against the Issuer for the non-payment to the Trustee of any amounts provided by this Section until at least one year and one day after the payment in full of all the Series A CP Notes issued under this Indenture.

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- (c) When the Trustee incurs expenses or renders services in connection with an Event of Default specified in Section 5.01(a)(v) or Section 5.01(a)(vi), the expenses (including the reasonable charges and expenses of its counsel) and the compensation for the services are intended to constitute expenses of administration under any applicable Federal or state bankruptcy, insolvency or other similar law.
- (d) The provisions of this Section shall survive the termination of this Indenture.

Section 6.08 Replacement of Trustee.

No resignation or removal of the Trustee and no appointment of a successor Trustee shall become effective until the acceptance of appointment by the successor Trustee pursuant to this Section. The Trustee may resign at any time upon 60 days' written notice to the Issuer. Majority Series A CP Noteholders may remove the Trustee with or without cause by so notifying the Trustee and may appoint a successor Trustee. The Issuer shall remove the Trustee if:

- (i) the Trustee fails to satisfy Section 6.11;
- (ii) the Trustee is adjudged a bankrupt or insolvent, or a receiver of the Trustee or of its property shall be appointed, or any public officer takes charge of the Trustee or its property or its affairs for the purpose of rehabilitation, conservation, or liquidation; or
- (iii) the Trustee otherwise becomes legally unable to act.

If the Trustee resigns or is removed or if a vacancy exists in the office of Trustee for any reason (the Trustee in such event being referred to as the retiring Trustee), the Issuer shall promptly appoint a successor Trustee satisfactory to the Series A CP Noteholders.

A successor Trustee shall deliver a written acceptance of its appointment to the retiring Trustee and the Issuer. Thereupon the resignation or removal of the retiring Trustee shall become effective, and the successor Trustee shall have all the rights, powers, and duties of the Trustee under this Indenture. The successor Trustee shall mail a notice of its succession to the Series A CP Noteholders. The retiring Trustee, upon payment of its charges hereunder, shall promptly transfer all property held by it as Trustee to the successor Trustee.

If a successor Trustee does not take office within 30 days after the retiring Trustee resigns or is removed, the retiring Trustee (at the expense of the Issuer), the Issuer or Majority Series A CP Noteholders may petition any court of competent jurisdiction for the appointment of a successor Trustee.

If the Trustee fails to satisfy Section 6.11, any Series A CP Noteholder may petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

Notwithstanding the replacement of the Trustee pursuant to this Section, the Issuer's obligations under Section 6.07 shall continue for the benefit of the removed or retiring Trustee.

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Section 6.09 Successor Trustee by Merger.

If the Trustee consolidates with, merges or converts into, or transfers all or substantially all its corporate trust business or assets to, another corporation or banking association, the resulting, surviving, or transferee corporation or banking association without any further act shall be the successor Trustee if that corporation or banking association is otherwise qualified and eligible under Section 6.11. The Trustee shall provide the Issuer and all Series A CP Noteholders prior written notice of any such transaction.

If any Series A CP Notes have been authenticated but not delivered at the time a successor to the Trustee by merger, conversion, consolidation, or transfer succeeds to the trusts created by this Indenture, the successor to the Trustee may adopt the certificate of authentication of the predecessor Trustee and deliver the Series A CP Notes so authenticated.

Any successor to the Trustee may authenticate Series A CP Notes in the name of the successor Trustee and those certificates of authentication shall have the full force that it is anywhere provided in the Series A CP Notes or in this Indenture that certificates of authentication of the Trustee shall have.

Section 6.10 Appointment of Co-Trustee or Separate Trustee.

- (a) Notwithstanding any other provisions of this Indenture, at any time, for the purpose of meeting any legal requirement of any jurisdiction in which any part of the Collateral may at the time be located, the Trustee may execute and deliver all instruments to appoint one or more Persons to act as a co-trustee or co-trustees, or separate trustee or separate trustees, of any part of the Collateral, and to vest in those Persons, in such capacity and for the benefit of the Series A CP Noteholders, title to any part of the Collateral and, subject to the other provisions of this Section, the powers, duties, obligations, rights and trusts as the Trustee may consider necessary or desirable. No co-trustee or separate trustee under this Indenture shall be required to meet the terms of eligibility as a successor trustee under Section 6.11 and no notice to Series A CP Noteholders of the appointment of any co-trustee or separate trustee shall be required under Section 6.08.
- (b) Every separate trustee and co-trustee shall, to the extent permitted by law, be appointed and act subject to the following provisions and conditions:
  - (i) all rights, powers, duties and obligations conferred or imposed upon the Trustee shall be conferred or imposed upon and exercised or performed by the Trustee and the separate trustee or co-trustee jointly (the separate trustee or co-trustee is not authorized to act separately without the Trustee joining in the act), except to the extent that under any law of any jurisdiction in which any particular acts are to be performed the Trustee is incompetent or unqualified to act, in which event the rights, powers, duties, and obligations shall be performed singly by the separate trustee or co-trustee, but solely at the direction of the Trustee;
  - (ii) no trustee under this Indenture shall be personally liable by reason of any act or omission of any other trustee; under this Indenture; and

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- (iii) the Trustee may at any time accept the resignation of or remove any separate trustee or co-trustee.
- (c) Any notice, request, or other writing given to the Trustee shall be deemed to have been given to each of the then separate trustees and co-trustees, as effectively as if given to each of them. Every instrument appointing any separate trustee or co-trustee shall refer to this Indenture and the conditions of this Article. Each separate trustee and co-trustee, upon its acceptance of the trusts conferred, shall be vested with the estates or property specified in its instrument of appointment, either jointly with the Trustee or separately, as may be provided therein, subject to all the provisions of this Indenture, specifically including every provision of this Indenture relating to the conduct of, affecting the liability of, or affording protection to, the Trustee. Every instrument of appointment shall be filed with the Trustee.
- (d) Any separate trustee or co-trustee may at any time constitute the Trustee its agent or attorney-in-fact with full power and authority to do any lawful act under this Indenture on its behalf and in its name. If any separate trustee or co-trustee shall die, become incapable of acting, resign, or be removed, all of its estates, properties, rights, remedies and trusts shall vest in and be exercised by the Trustee, without the appointment of a new or successor trustee.

Section 6.11 Eligibility; Disqualification.

The Trustee shall have a combined capital and surplus of at least \$500,000,000 as set forth in its most recently filed report of condition.

Section 6.12 Representations and Covenants of Trustee.

The Trustee represents, warrants and covenants that:

- (i) it is a banking corporation duly organized and validly existing under the laws of the State of New York;
- (ii) it has full power and authority to deliver and perform this Indenture and has taken all necessary action to authorize the execution, delivery, and performance by it of this Indenture and the Collateral Account Control Agreement; and
- (iii) each of this Indenture and the Collateral Account Control Agreement has been duly executed and delivered by the Trustee and constitutes its legal, valid and binding obligation enforceable in accordance with its terms, except to the extent the enforcement thereof may be limited by bankruptcy, insolvency or similar laws affecting the enforcement of creditor's rights generally and subject also to the availability of equitable remedies if equitable remedies are sought.

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Section 6.13 Trustee as Paying Agent, Registrar and Authenticating Agent.

Where the Trustee shall act in the capacity of Paying Agent, Registrar, Authenticating Agent and issuing agent (collectively, the "Agent Capacity"), neither the Trustee nor its officers, employees or agents shall be liable for any act or omission thereunder, except in the case of a judicial determination of its own gross negligence or willful misconduct as described in Section 6.14 in this Indenture. The duties and obligations of the Trustee in its Agent Capacity and those of its officers and employees shall be determined by the express provisions of this Indenture, and the Trustee and its officers, employees and agents shall be responsible for the performance of only such duties and obligations as are specifically set forth herein and therein, and no implied covenants shall be read into any such document against the Trustee or its officers, employees or agents. Neither the Trustee or its officers, employees or agents shall be required to ascertain whether any issuance or sale of Series A CP Note(s) (or any amendment or termination of this Indenture) has been duly authorized or is in compliance with any other agreement, ordinance, resolution or other undertaking or document to which the Issuer is a party or by which it or its property may be bound (whether or not the Trustee is a party to such other agreement).

Section 6.14 Liability in Agent Capacity.

The Issuer hereby indemnifies and holds the Trustee in its Agent Capacity, and its employees and any of its officers and agents harmless, from and against, and the Trustee in its Agent Capacity shall not be liable for, any and all losses, liabilities (including liabilities for penalties), actions, suits, judgments, demands, damages, costs and expenses of any nature (including, without limitation, interest and reasonable attorneys' fees, expenses, and the allocable costs of in-house legal services) arising out of or resulting from the exercise of its rights and/or the performance of its duties (or those of its agents and employees) hereunder; provided, however, that the Issuer shall not be liable to indemnify or pay you with respect to any loss, liability, action, suit, judgment, demand, damage, cost or expense that shall be determined to have been caused by your own gross negligence or willful misconduct or that of your officers or employees. The foregoing indemnity includes, but is not limited to, any action taken or omitted to be taken by the Trustee in its Agent Capacity upon electronically transmitted instructions (authorized herein) received by it from, or believed by it in good faith to have been given by, the proper person or persons. The provisions of this Section 6.14 shall survive (i) the Trustee's resignation or removal in its Agent Capacity and (ii) the termination of this Indenture.

In no event shall the Trustee, whether as Trustee or in its Agent Capacity be responsible or liable for special, indirect, or consequential loss or damage of any kind whatsoever (including, but not limited to, loss of profit) irrespective of whether the Trustee has been advised of the likelihood of such loss or damage and regardless of the form of action.

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**Article VII.**

**SERIES A CP NOTEHOLDERS' LIST AND REPORTS BY INDENTURE TRUSTEE AND ISSUER**

Section 7.01 Issuer to Furnish Trustee Names and Addresses of Series A CP Noteholders.

Within five days after each Record Date, the Transfer Agent and Registrar, at the direction of the Issuer, will cause to be furnished to the Trustee a list, in such form as the Trustee may reasonably require, of the names, addresses and taxpayer identification numbers of the Series A CP Noteholders as they appear on the Series A CP Note Register as of that Record Date. At any other time the Trustee may request the Issuer to furnish, on ten days' written notice, a list of similar form and content as of a date not more than 10 days prior to the time the list is furnished. So long as the Trustee is the Transfer Agent and Registrar, the Issuer shall not be required to furnish such lists and the Trustee shall furnish to the Issuer such list upon ten days' written request.

Section 7.02 Preservation of Information; Communications to Series A CP Noteholders.

- (a) The Trustee shall preserve, in as current a form as is reasonably practicable, the names, addresses and taxpayer identification numbers of the Series A CP Noteholders contained in the most recent list furnished to the Trustee under Section 7.01 and the names, addresses and taxpayer identification numbers of the Series A CP Noteholders received by the Trustee in its capacity as Transfer Agent and Registrar. The Trustee may destroy any list furnished to it under Section 7.01 upon receipt of a new list so furnished.
- (b) If any Series A CP Noteholder applies in writing to the Trustee stating that it desires to communicate with other Series A CP Noteholders regarding their rights under this Indenture or under the Notes, then the Trustee shall, within five Business Days after the receipt of the application, afford that Series A CP Noteholder access to the information preserved at the time by the Trustee in accordance with subsection (a) of this Section.
- (c) If any Owner applies in writing to the Trustee stating that it desires to communicate with other Owners regarding their rights under this Indenture or under the Notes, then the Trustee shall, within five Business Days after the receipt of the application, afford that Owner access to the information preserved at the time by the Trustee in accordance with subsection (a) of this Section; provided, however, that in the case of a person claiming to be an Owner requesting such information, the Trustee shall not furnish such information until the Issuer shall have authorized release of such information and the Trustee shall have no liability for such release or the identity of the requesting person

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**Article VIII.**

**ACCOUNTS, ACCOUNTING AND RELEASES**

Section 8.01 Collection of Money.

Except as otherwise expressly provided in this Indenture, the Trustee may demand payment or delivery of, and receive and collect, directly and without intervention or assistance of any fiscal agent or other intermediary, all money and other property payable to or receivable by the Trustee pursuant to this Indenture. The Trustee shall hold all such money and property received by it in trust for the Series A CP Noteholders and shall apply such property and money as provided in this Indenture.

Section 8.02 Distributions.

On each Payment Date, the Trustee shall, in accordance with Section 2.15 of this Indenture, distribute to the Series A CP Noteholders payments due thereunder.

Section 8.03 Release of Trust Assets, Etc.

- (a) Subject to the payment of its fees and expenses, the Trustee, when required by the Basic Documents shall, execute instruments to release property from the Lien of this Indenture, or convey the Trustee's interest in the same. No party relying upon an instrument executed by the Trustee as provided in this Article shall be bound to ascertain the Trustee's authority, inquire into the satisfaction of any conditions precedent or see to the application of any monies.
- (b) Upon written direction of an Authorized Representative of the Issuer, the Trustee shall, at such time as there are no Series A CP Notes outstanding, release and transfer, without recourse, all of the Collateral that secured the Series A CP Notes (other than any cash held for the payment of the Series A CP Notes pursuant to Section 4.02).

Section 8.05 Establishment of Note Account.

The Trustee, for the benefit of the Series A CP Noteholders, shall establish and maintain with a separate segregated trust account (the "*Note Account*"), bearing a designation clearly indicating that the funds therein are held for the benefit of the Series A CP Noteholders.

**Article IX.**

**SUPPLEMENTAL INDENTURES**

Section 9.01 Supplemental Indentures Without Consent of Series A CP Noteholders.

- (a) The Issuer and the Trustee, when authorized by a written direction of an Authorized Representative of the Issuer, may enter into one or more indentures supplemental to this Indenture, in form satisfactory to the Trustee, for any of the following purposes:

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- (i) to correct or amplify the description of any property subject to the Lien of this Indenture, or better to assure, convey and confirm to the Trustee any property required to be subjected to the Lien of this Indenture, or to subject to the Lien of this Indenture additional property;
  - (ii) to evidence the succession, in compliance with Section 3.06, of another Person to the Issuer, and the assumption by the successor of the covenants of the Issuer herein and in the Series A CP Notes;
  - (iii) to add to the covenants of the Issuer, for the benefit of the Series A CP Noteholders, or to surrender any right or power herein conferred upon the Issuer;
  - (iv) to convey, transfer, assign, mortgage or pledge any property to or with the Trustee;
  - (v) to cure any ambiguity, to correct or supplement any provision herein or in any supplemental indenture that may be inconsistent with any other provision herein or in any supplemental indenture, or to make any other provisions with respect to matters arising under this Indenture or in any supplemental indenture so long as the interests of any Series A CP Noteholder are not adversely affected; or
  - (vi) to evidence the acceptance of the appointment under this Indenture of a successor trustee and to add to or change any of the provisions of this Indenture necessary to facilitate the administration of the trusts under this Indenture by more than one trustee, pursuant to the requirements of Article VI.

The Trustee is authorized to join in the execution of any such supplemental indenture and to make any further appropriate agreements and stipulations that may be therein contained.

- (b) The Issuer and the Trustee, when authorized by a written direction of an Authorized Representative of the Issuer, may also enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, this Indenture or of modifying in any manner the rights of the Series A CP Noteholders under this Indenture; provided that such action will not, as evidenced by an Opinion of Counsel of the Issuer, delivered and acceptable to the Trustee, adversely affect in any material respect the interests of any Series A CP Noteholder.

Section 9.02 Supplemental Indentures with Consent of Series A CP Noteholders.

The Issuer and the Trustee, when authorized by a written direction of an Authorized Representative of the Issuer, also may, with the consent of a Majority of Series A CP Noteholders, by an Act of the Series A CP Noteholders delivered to the Issuer and the Trustee, enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to, changing in any manner or eliminating any of the provisions of this Indenture or of modifying in any manner the rights of those Series A CP Noteholders under this Indenture. However, no such supplemental indenture shall, without the consent of each Series A CP Noteholder affected thereby:

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- (i) change the due date of any installment of principal of or interest on any Series A CP Note, or reduce the principal amount of any Series A CP Note, the interest rate on any Series A CP Note or the redemption price of any Series A CP Note or change any place of payment where, or the coin or currency in which, any Series A CP Note or any interest on it is payable;
  - (ii) impair the right to institute suit for the enforcement of the provisions of this Indenture requiring the application of funds, as provided in Article V, to the payment of any amount due on the Series A CP Notes on or after the respective due dates thereof (or, in the case of redemption, on or after the redemption date);
  - (iii) reduce the percentage that constitutes "Majority Series A CP Noteholders" or the consent requirements of the Holders which is required for any such supplemental indenture, or the consent of the Holders of which is required for any waiver of compliance with certain provisions of this Indenture or certain defaults hereunder and their consequences as provided for in this Indenture;
  - (iv) reduce the percentage of the aggregate outstanding amount of any Notes, the consent of the Holders of which is required to direct the Trustee to sell or liquidate the Collateral if the proceeds of such sale would be insufficient to pay the principal amount and accrued but unpaid interest on the outstanding Notes;
  - (v) decrease the percentage of the aggregate principal amount of the Series A CP Notes required to amend the sections of this Indenture that specify the applicable percentage of the aggregate principal amount of the Series A CP Notes necessary to amend this Indenture;
  - (vi) modify or alter the provisions of this Indenture regarding the voting of Series A CP Notes held by the Issuer or any Affiliate thereof;
  - (vii) permit the creation of any Lien ranking prior to or on a parity with the Lien of this Indenture on any part of the Collateral for any Series A CP Notes or, except as otherwise permitted or contemplated herein, terminate the Lien of this Indenture on any Collateral assets or deprive any Series A CP Noteholder of the security provided by the Lien of this Indenture; or
  - (vi) to provide for the termination or replacement of any external credit enhancement in accordance with the provisions hereto.

Promptly after the execution by the Issuer and the Trustee of any supplemental indenture pursuant to this Section, the Trustee shall mail to the Series A CP Noteholders to which that supplemental indenture relates written notice provided to the Trustee by the Issuer setting forth in general terms the substance of that supplemental indenture. The failure of the Trustee to mail any such notice, or any defect therein, shall not in any way impair or affect the validity of that supplemental indenture.

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Section 9.03 Execution of Supplemental Indentures.

In executing, or accepting the additional trusts created by, any supplemental indenture permitted by this Article or the modification thereby of the trusts created by this Indenture, the Trustee shall be provided with, and (subject to Sections 6.01 and 6.03) shall be fully protected in relying upon, an Opinion of Counsel stating that the execution of such supplemental indenture is authorized or permitted by this Indenture. The Trustee may, but shall not be obligated to, enter into any supplemental indenture that affects the Trustee's own rights, duties, liabilities or immunities under this Indenture or otherwise.

Section 9.04 Effect of Supplemental Indenture.

Upon the execution of any supplemental indenture under this Article, this Indenture shall be modified in accordance therewith, and that supplemental indenture shall form a part of this Indenture for all purposes, and every Holder of Series A CP Notes theretofore or thereafter authenticated and delivered hereunder shall be bound thereby.

Section 9.05 Reference in Series A CP Notes to Supplemental Indentures.

Notes authenticated and delivered after the execution of any supplemental indenture pursuant to this Article may bear a notation in form as to any matter provided for in that supplemental indenture. If the Issuer so determines, new Series A CP Notes so modified as to conform, in the opinion of the Issuer, to that supplemental indenture may be prepared and executed by the Issuer and authenticated and delivered by the Trustee in exchange for outstanding Notes.

**Article X.**

**MISCELLANEOUS**

Section 10.01 Form of Documents Delivered to Trustee.

In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to those matters in one or several documents.

Any certificate or opinion of an Authorized Representative of the Issuer may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which such officer's certificate or opinion is based are erroneous. Any such certificate of an Authorized Representative or Opinion of Counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of the Issuer or the Issuer, stating that the information with respect to those factual matters is in the possession of such party, unless such Authorized Representative or counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to those matters are erroneous.

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Where any Person is required to make, give, or execute two or more applications, requests, consents, certificates, statements, opinions, or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

Whenever in this Indenture, in connection with any application or certificate or report to the Trustee, it is provided that the Issuer shall deliver any document as a condition of the granting of such application, or as evidence of the Issuer's compliance with any term hereof, it is intended that the truth and accuracy, at the time of the granting of such application or at the effective date of that certificate or report (as the case may be), of the facts and opinions stated in that document shall in such case be conditions precedent to the right of the Issuer to have that application granted or to the sufficiency of that certificate or report. The foregoing shall not, however, be construed to affect the Trustee's right to rely upon the truth and accuracy of any statement or opinion contained in any such document as provided in Article VI.

Section 10.02 Acts of Series A CP Noteholders.

- (a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Series A CP Noteholders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by those Series A CP Noteholders in person or by agent duly appointed in writing and satisfying any requisite percentages as to minimum number or dollar value of outstanding principal amount represented by those Series A CP Noteholders. Except as herein otherwise expressly provided, any such action shall become effective when such instrument or instruments are delivered to the Trustee, and, where it is hereby expressly required, to the Issuer. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of the Series A CP Noteholders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and conclusive in favor of the Trustee and the Issuer, if made in the manner provided in this Section.
- (b) The fact and date of the execution by any Person of any such instrument or writing may be proved in any manner which the Trustee deems sufficient.
- (c) The ownership of Series A CP Notes shall be proved by the Series A CP Note Register.
- (d) Any request, demand, authorization, direction, notice, consent, waiver, or other action by any Series A CP Noteholder shall bind the Holder (and any transferee thereof) of every Series A CP Note issued upon the registration thereof in exchange therefor or in lieu thereof, in respect of anything done, omitted or suffered to be done by the Trustee or the Issuer in reliance thereon, whether or not notation of such action is made upon such Note.

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Section 10.03 Notices, Etc. to Trustee, Issuer and Issuer.

- (a) Any request, demand, authorization, direction, notice, consent, waiver, or Act of Series A CP Noteholders or other documents provided or permitted by this Indenture to be made upon, given or furnished to, or filed with:

(i) the Trustee by any Series A CP Noteholder or by the Issuer shall be sufficient for every purpose hereunder (x) if in writing and mailed, first-class postage prepaid, to the address set forth below or (y) if made, given, furnished or filed in writing to a Designated Officer of the Trustee, by facsimile transmission or by other electronic means acceptable to the Trustee to or with the Trustee at

The Bank of New York Mellon  
101 Barclay Street, Floor 7 West  
New York, New York 10286  
Attention: Corporate Trust Administration  
Dealing and Trading  
Facsimile No.: (212) 815-2830

(ii) the Issuer by the Trustee or by any Series A CP Noteholder shall be sufficient for every purpose hereunder if in writing and mailed, first-class postage prepaid, to the address set forth below or (y) if made, given, furnished or filed in writing to the Issuer, by facsimile transmission or by other electronic means acceptable to the Issuer to or with the Issuer at:

Piper Jaffray & Co.  
800 Nicollet Mall, J13S22  
Minneapolis, MN 55402-7020  
Attn: Treasury Department  
Telephone: (612) 303-6805  
Facsimile: (612) 303-1316

, or at any other address previously furnished in writing to the Trustee by the Issuer.

Section 10.04 Notices to Series A CP Noteholders; Waiver.

Where this Indenture provides for notice to Series A CP Noteholders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and mailed by registered or certified mail or first class postage prepaid or national overnight courier service to each Series A CP Noteholder affected by such event, at the address of that Series A CP Noteholder as it appears on the Series A CP Note Register, not later than the latest date, and not earlier than the earliest date, prescribed for the giving of such notice. In any case where notice to Series A CP Noteholders is given by mail, neither the failure to mail such notice, nor any defect in any notice so mailed, to any particular Series A CP Noteholder shall affect the sufficiency of such notice with respect to other Series A CP Noteholders, and any notice that is mailed in the manner herein provided shall conclusively be presumed to have been duly given.

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Where this Indenture provides for notice in any manner, that notice may be waived in writing by any Person entitled to receive such notice, before the event, and any such waiver shall be the equivalent of that notice.

If because of the suspension of regular mail service, it is impractical to mail notice of any event to Series A CP Noteholders when that notice is required to be given, then any manner of giving that notice that is satisfactory to the Trustee shall be deemed to be a sufficient giving of that notice.

The Issuer shall give prompt written notice to each Series A CP Noteholder of any of the following occurrences: (a) the appointment of a successor Trustee and (b) the execution of a supplemental indenture pursuant to Article IX.

Section 10.05 Alternate Payment and Notice Provisions.

Notwithstanding any provision of this Indenture or any of the Series A CP Notes to the contrary, the Issuer, with the consent of the Trustee, may enter into any agreement with any Series A CP Noteholder providing for a method of payment, or notice by the Trustee or any Paying Agent to that Series A CP Noteholder, that is different from the methods provided for in this Indenture for payments or notices. The Issuer will furnish to the Trustee a copy of each such agreement and the Trustee will cause payments to be made and notices to be given in accordance with those agreements.

Section 10.06 Effect of Headings and Table of Contents.

The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

Section 10.07 Successors and Assigns.

All covenants and agreements in this Indenture by the Issuer shall bind its successors and assigns, whether so expressed or not.

Section 10.08 Separability.

If any provision in this Indenture or in the Series A CP Notes is invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 10.09 Benefits of Indenture.

Except as set forth in Section 10.13, nothing in this Indenture or in the Notes, express or implied, shall give to any Person, other than the parties hereto and their successors hereunder, and the Series A CP Noteholders, any benefit.

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Section 10.10 Legal Holidays.

In any case where the date on which any payment is due shall not be a Business Day, then (notwithstanding any other provision of the Series A CP Notes or this Indenture) payment need not be made on that date, but may be made on the next succeeding Business Day with the same force and effect as if made on the date on which nominally due, and no interest shall accrue for the period from and after any such nominal date.

Section 10.11 Governing Law.

**THIS INDENTURE AND EACH SERIES A CP NOTE SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO THE CONFLICTS-OF-LAW PRINCIPLES THEREOF, OTHER THAN SECTIONS 5-1401 AND 5-1402 OF THE GENERAL OBLIGATIONS LAW, APPLICABLE TO AGREEMENTS MADE AND TO BE PERFORMED THEREIN.**

**EACH OF THE ISSUER AND THE TRUSTEE HEREBY CONSENT TO THE JURISDICTION OF A STATE OR FEDERAL COURT SITUATED IN NEW YORK, NEW YORK IN CONNECTION WITH ANY SUIT HEREUNDER.**

**EACH OF THE ISSUER AND THE TRUSTEE HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS INDENTURE, THE NOTES OR THE TRANSACTION CONTEMPLATED HEREBY.**

Section 10.12 Counterparts.

This Indenture may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

Section 10.13 Issuer Obligation.

No recourse may be taken, directly or indirectly, with respect to the obligations of the Issuer on the Series A CP Notes or under this Indenture or any certificate or other writing delivered in connection herewith or therewith, against (i) any owner of a membership or other equity interest in the Issuer or (ii) any manager, partner, owner, beneficiary, agent, officer, director, employee or agent of the Issuer, or of any holder of a membership or other equity interest in the Issuer.

Section 10.14 No Petition.

The Trustee, by entering into this Indenture, and each Series A CP Noteholder, by accepting a Note, hereby covenant that they will not at any time institute against the Issuer, or join in any institution against the Issuer, any bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings, or other proceedings under any United States federal or state bankruptcy or similar law in connection with any obligations relating to the Notes, this Indenture, until at least one year and one day after the payment in full of all Series A CP Notes issued under this Indenture.

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Section 10.15 Force Majeure.

In no event shall the Trustee be responsible or liable for any failure or delay in the performance of its obligations hereunder arising out of or caused by, directly or indirectly, forces beyond its control, including, without limitation, strikes, work stoppages, accidents, acts of war or terrorism, civil or military disturbances, nuclear or natural catastrophes or acts of God, and interruptions, loss or malfunctions of utilities, communications or computer (software and hardware) services; it being understood that the Trustee shall use reasonable efforts which are consistent with accepted practices in the banking industry to resume performance as soon as practicable under the circumstances.

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IN WITNESS WHEREOF, the Issuer and the Trustee have caused this Second Amended and Restated Indenture to be duly executed by their respective officers thereunto duly authorized, all as of the day and year first above written.

PIPER JAFFRAY & CO., Issuer

BY:

By:           /s/ Timothy L. Carter          

Printed Name: Timothy L. Carter

Title: Treasurer

THE BANK OF NEW YORK MELLON, as TRUSTEE

By:           /s/ Maryann Joseph          

Printed Name: Maryann Joseph

Title: Vice President

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EXHIBIT A- FORM OF MASTER SERIES A CP NOTE

**PIPER JAFFRAY & CO.**

**SERIES A SECURED COMMERCIAL PAPER MASTER NOTE**

THIS MASTER NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR UNDER ANY STATE SECURITIES OR BLUE SKY LAW OF ANY STATE. THE HOLDER HEREOF, BY PURCHASING THIS NOTE, AGREES THAT THIS NOTE MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS AND ONLY TO A PERSON THAT THE HOLDER REASONABLY BELIEVES IS (I) A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "QIB"), PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB, OR (II) AN ENTITY (EXCLUSIVE OF A NATURAL PERSON) ACTING FOR ITS OWN ACCOUNT OR THE ACCOUNTS OF OTHER SIMILARLY QUALIFIED PURCHASERS WHO IN THE AGGREGATE OWN AND INVEST ON A DISCRETIONARY BASIS NOT LESS THAN \$25,000,000 IN INVESTMENTS ("QP"), PURCHASING FOR INVESTMENT AND NOT FOR DISTRIBUTION, SUBJECT TO THE RECEIPT BY THE INDENTURE TRUSTEE OF A LETTER SUBSTANTIALLY IN THE FORM PROVIDED IN THE INDENTURE.

UNLESS THIS NOTE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), TO THE NOTE REGISTRAR OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY NOTE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

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PIPER JAFFRAY & CO.  
SERIES A SECURED COMMERCIAL PAPER MASTER NOTE

Date of Issuance: December 29, 2009

Piper Jaffray & Co., a corporation organized and existing under the laws of the State of Delaware (herein referred to as the "Issuer"), for value received, hereby promises to pay to Cede & Co., or registered assigns, the principal amount of all Series A CP Notes Outstanding at the related Maturity Date therefor, which principal amounts and Maturity Dates shall be as identified on the Issuing Agent's records (the "Records"), as Custodian for Cede & Co., in accordance with Section 2.14 of the Indenture, plus Interest on each interest bearing Series A CP Note on the related Interest Payment Date as set forth in the Records. The principal of and interest on the Series A CP Notes are payable in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts. All payments made by the Issuer with respect to each Series A CP Note shall be applied first to interest, if any, due and payable on such Series A CP Note and then to the unpaid principal of such Series A CP Note. The Indenture provides that the aggregate Outstanding principal amount of the Series A CP Notes shall not exceed \$300,000,000 at any time.

Reference is made to the further provisions of the Series A CP Notes set forth on the reverse hereof, which shall have the same effect as though fully set forth on the face of this Master Series A CP Note.

Unless the certificate of authentication hereon has been executed by the Indenture Trustee whose name appears below by manual signature, this Series A CP Note shall not be entitled to any benefit under the Indenture referred to on the reverse hereof, or be valid or obligatory for any purpose.

**SEE REVERSE FOR CERTAIN DEFINITIONS**

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IN WITNESS WHEREOF, the Issuer has caused this instrument to be signed, manually or in facsimile, by its Authorized Signatory as of the date set forth below.

Date: December 29, 2009

PIPER JAFFRAY & CO.

By:

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Authorized Signatory

**INDENTURE TRUSTEE'S CERTIFICATE OF AUTHENTICATION**

This is the Master Series A CP Notes of Piper Jaffray & Co. designated above and referred to in the within-mentioned Indenture.

Date: December 29, 2009

THE BANK OF NEW YORK MELLON,

not in its individual capacity but solely

as Indenture Trustee,

By:

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Authorized Signatory

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**[REVERSE OF NOTE]**

This Master Series A CP Note is being held by the Issuing Agent, as custodian for DTC acting as Depository, and registered in the name of Cede & Co., a nominee of DTC. This Master Series A CP Note represents the Issuer's obligations under each duly authorized issue of the Series A CP Notes of the Issuer, designated as its Senior Secured Commercial Paper Notes (herein called the "Series A CP Notes"), all issued under an Indenture dated as of December 29, 2009 (such indenture, as supplemented or amended, is herein called the "Indenture"), between the Issuer and The Bank of New York Mellon, as indenture trustee (the "Indenture Trustee", which term includes any successor Indenture Trustee under the Indenture), and as Issuing Agent and Paying Agent, to which Indenture and all indentures supplemental thereto reference is hereby made for a statement of the respective rights and obligations thereunder of the Issuer, the Indenture Trustee and the Holders of the Series A CP Notes. Each of the Series A CP Notes represented by this Master Series A CP Note shall be issued pursuant to the procedures set forth in the Indenture, including an identification in the Issuing Agent's records of the Issuance Date, the Maturity Date, the Interest Rate, if any, the Discount, if any, and the CUSIP applied to such Series A CP Note. All of the Series A CP Notes represented by this Master Notes are subject to all terms of the Indenture. All terms used in this Master Series A CP Note that are defined in the Indenture, as supplemented or amended, shall have the meanings assigned to them in or pursuant to the Indenture, as so supplemented or amended.

As described above, the entire unpaid principal amount of each Series A CP Note represented by this Master Series A CP Note shall be due and payable on related Maturity Date set forth in the Records. Notwithstanding the foregoing, the entire unpaid principal amount of each Series A CP Note shall be due and payable on the date on which an Event of Default shall have occurred and be continuing and the Indenture Trustee or the Majority Noteholders have declared the Series A CP Notes to be immediately due and payable in the manner provided in Section 5.02 of the Indenture. All principal payments on the Series A CP Notes shall be made pro rata to the Series A CP Noteholders entitled thereto.

Each Series A CP Noteholder or Series A CP Note Owner, by acceptance of a Series A CP Note or, in the case of a Series A CP Note Owner, a beneficial interest in a Series A CP Note covenants and agrees that no recourse may be taken, directly or indirectly, with respect to the obligations of the Issuer under the Indenture on the Series A CP Notes or under any certificate or other writing delivered in connection therewith, against the Indenture Trustee.

On each CP Interest Payment Date, commencing on January 15, 2010, the Indenture Trustee or Paying Agent shall distribute to the Person in whose name this Series A CP Note is registered at the close of business on the Record Date an amount equal to the related Series A CP Note Interest, if any, at the Interest Rate set forth in the Issuing Agent's records for such Series A CP Notes.

Distributions on each Series A CP Note will be made by the Indenture Trustee or Paying Agent by check mailed to the address of the Person entitled thereto as such name and address shall appear on the Note Register or, upon written request to the Indenture Trustee, by wire transfer of immediately available funds to the account of the Person entitled thereto as shall appear on the Note Register without the presentation or surrender of this Note or the making of any notation thereon, at a bank or other entity having appropriate facilities therefor.

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This Series A CP Note is a direct and unconditional obligation of the Issuer and is secured equally and ratably by certain collections and recoveries respecting the Collateral, all as more specifically set forth herein and in the Indenture and the Collateral Account Control Agreement, dated as of December 29, 2009, between the Indenture Trustee, as Secured Party, The Bank of New York Mellon, as Securities Intermediary and the Issuer, as Pledgor. The Series A CP Notes are not insured or guaranteed by the Federal Deposit Insurance Corporation, the Securities Investor Protection Corporation or any other governmental agency.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Master Series A CP Note is registrable in the Note Register upon surrender of this Master Series A CP Note for registration of transfer at the offices or agencies maintained by the Note Registrar in New York, New York, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to, the Indenture Trustee, duly executed by the holder hereof or such holder's attorney duly authorized in writing, and thereupon one or more new Series A CP Notes in authorized denominations evidencing the same aggregate undivided Percentage Interest will be issued to the designated transferee or transferees. As of the date any such Series A CP Notes are issued, the obligations which are evidenced thereby shall no longer be evidenced by this Master Note

The Series A CP Notes are issuable only as registered Series A CP Notes. As provided in the Indenture and subject to certain limitations therein set forth, the Series A CP Notes are exchangeable for new Series A CP Notes evidencing the same undivided ownership interest, as requested by the holder surrendering the same.

No service charge will be made for any such registration of transfer or exchange, but the Note Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

The Issuer, the Indenture Trustee, the Issuing Agent, the Paying Agent and the Note Registrar, and any agent of any of the foregoing, may treat the person in whose name this Series A CP Note is registered as the owner hereof for all purposes, and none of the foregoing shall be affected by notice to the contrary.

**THIS MASTER SERIES A CP NOTE SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO THE CONFLICTS OF LAW PRINCIPLES THEREOF, OTHER THAN SECTIONS 5-1401 AND 5-1402 OF THE GENERAL OBLIGATIONS LAW, APPLICABLE TO AGREEMENTS MADE AND TO BE PERFORMED THEREIN.**

The obligations and responsibilities created by the Indenture shall terminate upon the payment to Series A CP Noteholders of all amounts required to be paid to them pursuant to the Indenture and the disposition of all Collateral held by the Securities Intermediary on behalf of the Trustee.

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**[SCHEDULE OF EXCHANGES OF INTERESTS IN THE MASTER NOTE]**

The following exchanges of a part of this Master Note for an interest in another Master Note or for an Individual Note, or exchanges of a part of another Master Note or Individual Note for an interest in this Master Note, have been made:

<u>Date of Exchange</u>	Amount of decrease in Principal Amount of this Master Note	Amount of Increase in Principal Amount of this Master Note	Principal Amount of this Master Note following such decrease (or increase)	Signature of authorized officer of Note Registrar

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**ASSIGNMENT**

Social Security or taxpayer I.D. or other identifying number of assignee

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto

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(name and address of assignee)

the within Note and all rights thereunder, and hereby irrevocably constitutes and appoints \_\_\_\_\_, attorney, to transfer said Note on the books kept for registration thereof, with full power of substitution in the premises.

Dated:

\_\_\_\_\_

\_\_\_\_\_ Signature Guaranteed

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<sup>1</sup> NOTE: The signature to this assignment must correspond with the name of the registered owner as it appears on the face of the within Note in every particular, without alteration, enlargement or any change whatsoever.

EXHIBIT B—FORM OF INVESTOR REPRESENTATION LETTER FOR SERIES A CP NOTES

The Bank of New York Mellon  
101 Barclay Street, Floor 7W  
New York, New York 10286  
Attention: Corporate Trust Administration  
Dealing and Trading

Piper Jaffray & Co.  
800 Nicollet Mall, J13S22  
Minneapolis, MN 55402-7020  
Attention: Short Term Desk

Re: Piper Jaffray & Co. Series A CP Notes issued pursuant to the Second Amended and Restated Indenture, dated as of June 11, 2012, between Piper Jaffray & Co., as Issuer, and The Bank of New York Mellon, as Indenture Trustee

In connection with our initial purchase of the Series A CP Notes, and any future purchases of the Series A CP Notes we make while this letter is in effect, the undersigned (the "Purchaser") hereby acknowledges, represents to and agrees with Piper Jaffray & Co. (the "Issuer") and the Indenture Trustee as follows:

(1) We understand and acknowledge that the Series A CP Notes are exempt securities under the Securities Act of 1933, as amended (the "Act"), pursuant to Section 3(a)(3) thereof and that the Issuer is offering the Series A CP Notes only to Qualified Institutional Buyers (as defined in Rule 144A under the Securities Act of 1933, as amended) ("QIBs") and Qualified Purchasers (as defined in Section 2(a)(51) of the Investment Company Act of 1940, as amended) ("QPs"). We represent that we are a QIB and/or QP. "Investments" refers to securities of issuers that are not affiliated with us, and the amount of Investments referred to above generally refers to the value thereof without regard to the stated or principal amount.

(2) We are purchasing the Series A CP Notes, and any future purchases of the Series A CP Notes covered by this letter will be, for our own account or for the accounts of one or more QIBs or QPs for which we are acting as a fiduciary or agent, in each case for investment, and not with a view to, or for offer or sale in connection with any distribution thereof. We will (i) not make any sale or other transfer of fractional interests in the Series A CP Notes to any transferee, and (ii) only make transfers to QIBs or QPs.

(3) We acknowledge that the Issuer and the Indenture Trustee and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements, in connection with this and any future purchases covered hereby, and agree that, if any of the acknowledgements, representations or agreements deemed to have been made by our purchase of the Series A CP Notes are no longer accurate, we shall promptly notify the addressees; and if we are acquiring any Series A CP Notes as a fiduciary or agent for one or more Persons who qualify as QIBs or QPs, we represent that we have sole investment discretion

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with respect to each such Person and that we have full power to make the foregoing acknowledgements, representations and agreements on behalf of each such Person. Each of the following acknowledgements, representations and agreements will be deemed to be remade in their entirety for any future purchases we make that are covered by this letter.

(4) We (i) have such knowledge and experience in financial and business matters that we are capable of evaluating the merits and risks (including for tax, legal, regulatory, accounting and other financial purposes) of our prospective investment in the Series A CP Notes, (ii) are financially able to bear such risk, (iii) in making such investment are not relying on the advice or recommendations of the Issuer or any of their respective affiliates (or any representative of any of the foregoing), and represent that none of such parties or any of their respective affiliates is acting as a fiduciary or financial or investment adviser for us and (iv) have determined that an investment in the Series A CP Notes is suitable and appropriate for us. We have had access to such financial and other information concerning the Issuer and the Series A CP Notes as we have deemed necessary to make our own independent decision to purchase the Series A CP Notes, including the opportunity, at a reasonable time prior to our purchase of the Series A CP Notes, to ask questions and receive answers concerning the Issuer and the terms and conditions of the offering of the Series A CP Notes.

(5) We understand that there is no trading market for the Series A CP Notes and that no assurance can be given as to the liquidity of any trading market for the Series A CP Notes and that it is unlikely that a trading market for the Series A CP Notes will develop. We further understand that, although the Issuer may from time to time make a market in the Series A CP Notes, the Issuer is under no obligation to do so and, following the commencement of any market-making, may discontinue the same at any time. Accordingly, we are prepared to hold the Series A CP Notes for an indefinite period of time or until the Maturity Date.

(6) The Series A CP Notes were not offered or sold to us by any form of general solicitation or advertising, including but not limited to:

(a) any advertisement, article, notice or other communication published in any newspaper, magazine or similar media or broadcast over television or radio; or

(b) any seminar or meeting whose attendees were invited by any general solicitation or general advertising.

(7) We understand and agree that in making decisions as to whether to purchase or sell the Series A CP Notes, we must rely on our own examination of the Issuer and the terms of the Series A CP Notes and that the Issuer shall not be deemed to make any recommendation regarding the amounts of any investment in the Series A CP Notes or the suitability of an investment in the Series A CP Notes by us. We have carefully reviewed the Offering Memorandum, dated as of June 11, 2012, and we acknowledge that (i) the Issuer of the Series A CP Notes is Piper Jaffray & Co., (ii) our registered representative at Piper Jaffray & Co. in connection with this purchase is an employee of Piper Jaffray & Co., (iii) Piper Jaffray & Co. will compensate our registered representative with a commission that is determined by reference to the dollar amount of the Series A CP Notes we are purchasing from you and (iv) we are aware that the relationships referred to above pose a potential conflict of interest.

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(8) We are the beneficial owner of at least \$1,000,000 of the Series A CP Notes and hereby request access to the Daily Collateral Reports pursuant to Section 3.03 of the Indenture and any other notices required under the Indenture to be sent to [mailing address]. We agree that any such reports shall be received by us as confidential and will not be disseminated to any other person or organization.

We understand that this letter shall continue in effect and apply to any purchases of the Series A CP Notes that are sold pursuant to the Offering Memorandum, dated as of June 11, 2012 and that if any of the acknowledgements, representations or agreements deemed to have been made upon each purchase of the Series A CP Notes are no longer accurate, we shall promptly notify the addressees.

Capitalized terms used but not defined herein shall have the meanings assigned to such terms in the Indenture.

Date: \_\_\_\_\_  
(Name of Purchaser)

By: \_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Mailing Address of Purchaser: \_\_\_\_\_

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EXHIBIT C—FORM OF NOTICE OF EXCLUSIVE CONTROL

The Bank of New York Mellon  
One Wall Street, New York  
New York, New York 10286  
Attention: Broker Dealer Services  
Division:

Re: Piper Jaffray & Co. Series A CP Notes

We hereby instruct you pursuant to Section 5.04 (a) of the Second Amended and Restated Indenture, dated as of June 11, 2012 (as supplemented or amended, the "Indenture"), between Piper Jaffray & Co., as Issuer, and The Bank of New York Mellon, as indenture trustee, and Article III, Section 5 of the Amended and Restated Collateral Account Control Agreement, dated as of June 11, 2012 (as supplemented or amended, the "Control Agreement") among the undersigned, as Securities Intermediary and Secured Party and Piper Jaffray & Co., as Pledgor, that (i) an uncured Event of Default has occurred and is continuing under Section 5.01 of the Indenture, (ii) you (A) shall not follow any instructions or entitlement orders of Pledgor with respect to the Collateral or the Collateral Account held by you for Pledgor, and (B) unless and until otherwise expressly instructed by the undersigned, shall exclusively follow the entitlement orders and instructions of the undersigned with respect to the Collateral or the Collateral Account.

Very truly yours,  
The Bank of New York Mellon, not in its individual  
capacity but solely as Indenture Trustee  
By: \_\_\_\_\_  
Authorized Signatory

EXHIBIT D—FORM OF ISSUANCE NOTICE

The Bank of New York Mellon  
101 Barclay Street, Floor 7W  
New York, New York 10286  
Attention: Corporate Trust Administration  
Dealing and Trading

Re: Piper Jaffray & Co.— Series A CP Notes \$300,000,000

The undersigned, an Authorized Representative of Piper Jaffray & Co., does hereby request The Bank of New York Mellon, as Issuing Agent under the Second Amended and Restated Indenture, dated as of June 11, 2012 (as supplemented or amended, the "Indenture"), between Piper Jaffray & Co., as Issuer, and The Bank of New York Mellon, as Indenture Trustee, Issuing Agent and Paying Agent, to issue pursuant to Section 2.14 of the Indenture, Series A CP Notes as follows:

Unless otherwise defined herein, capitalized terms used in this request shall have the meanings assigned to them in the Indenture and the Amended and Restated Collateral Account Control Agreement, dated as of June 11, 2012, by and between the Issuer, as Pledgor, and The Bank of New York Mellon, as Securities Intermediary and the Indenture Trustee, as Secured Party.

Date of Issuance: \_\_\_\_\_

Type of Transaction : \_\_\_\_\_ (should specify either Free Delivery or Delivery vs. Payment)

DTC Participant#

Type of Series A CP Note : [Sold at a discount to the face] or [Interest paying on each Interest Payment Date].

For Interest Paying:

Maturity Date	Principal Amount	Interest Rate
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For Discount:

Maturity Date	Principal Amount	Discount Rate
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You are requested to increase the principal amount of the Series A CP Notes Outstanding on your Master Note Records to the aggregate principal amount of \$ \_\_\_\_\_.

Pursuant to Section 2.14 of the Indenture, the undersigned hereby certifies that:

- (i) After the issuance of the Series A CP Notes as hereby requested, and the retirement of any Series A CP Notes maturing concurrently with the issuance requested hereunder, the aggregate principal amount of the Series A CP Notes will not exceed \$300,000,000;
- (ii) The term to Maturity of the Series A CP Notes as hereby requested is not less than 27 days and does not exceed 270 days;
- (iii) To the actual knowledge of the Issuer, no Event of Default has occurred and is now continuing;
- (iv) Each representation, warranty and covenant of the Issuer contained in the Indenture is satisfied as of the date hereof, and
- (v) After the issuance of the Series A CP Notes as hereby requested, and the retirement of any Series A CP Notes maturing concurrently with the issuance requested hereunder, there is no Margin Value Deficiency (i.e., the aggregate Series A CP Note Principal Outstanding immediately after the requested issuance shall not exceed the Margin Value).

Dated: \_\_\_\_\_

Piper Jaffray & Co.

By: \_\_\_\_\_  
Authorized Representative

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EXHIBIT E—FORM OF DAILY COLLATERAL REPORT

<u>Security Number</u>	<u>Type</u>	<u>Security Description</u>	<u>Maturity Date</u>	<u>Coupon</u>	<u>Price</u>	<u>Factor</u>	<u>Moody</u>	<u>S&amp;P</u>	<u>Issuer</u>	<u>Par Amount</u>	<u>Accrued Interest</u>	<u>Market Value</u>	<u>Market Value of Eligible Collateral</u>	<u>Margin Value</u>
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EXHIBIT F—FORM OF COLLATERAL ACCOUNT CONTROL AGREEMENT

**SECOND AMENDED AND RESTATED  
COLLATERAL ACCOUNT CONTROL AGREEMENT**

AMENDED AND RESTATED AGREEMENT, dated as of June 11, 2012 among Piper Jaffray & Co. ("Pledgor"), The Bank of New York Mellon, as Indenture Trustee ("Secured Party") and The Bank of New York Mellon ("Securities Intermediary").

WITNESSETH:

WHEREAS, Pledgor, Secured Party and Securities Intermediary originally entered into that certain Collateral Account Control Agreement dated as of December 28, 2009 and amended and restated as of March 23, 2010 (the "March 23, 2010 Collateral Account Control Agreement") pursuant to which Securities Intermediary agreed to act on behalf of Secured Party and Pledgor in respect of collateral delivered to Securities Intermediary by Pledgor for the benefit of the Secured Party; and

WHEREAS, Secured Party and Pledgor originally entered into that certain Indenture dated as of December 28, 2009 and amended and restated as of March 23, 2010 (the "March 23, 2010 Indenture") pursuant to which Pledgor agreed to pledge to Secured Party for the benefit of the Series A CP Noteholders (as defined below) pursuant to the March 23, 2010 Indenture the Collateral (as defined below) in order to secure the repayment of Pledgor's obligations to the Series A CP Noteholders; and

WHEREAS, Secured Party and Pledgor have entered into the Second Amended and Restated Indenture dated as of June 11, 2012 (the "Second Amended and Restated Indenture") pursuant to which the terms of the March 23, 2010 Indenture have been amended and restated; and

WHEREAS, Pledgor, Secured Party and Securities Intermediary wish to amend and restate the March 23, 2010 Collateral Account Control Agreement as set forth herein.

NOW THEREFORE, in consideration of the mutual promises set forth hereafter, the parties hereto agree as follows:

**ARTICLE I  
DEFINITIONS**

Whenever used in this Agreement, the following words shall have the meanings set forth below:

- 1. "Account"** shall mean a custodial account established and maintained pursuant to this Agreement in which Collateral shall be deposited by Pledgor and pledged to Secured Party and any demand deposit account established and maintained in connection therewith.
- 2. "Authorized Person"** shall be any person, whether or not an officer or employee of Secured Party or Pledgor, duly authorized by Secured Party or Pledgor, respectively, to give Oral and/or Written Instructions on behalf of Secured Party or Pledgor, respectively, such persons to be designated in a Certificate of Authorized Persons (attached hereto as Schedule II) which contains a specimen signature of such person.
- 3. "Business Day"** shall mean any day on which Securities Intermediary and the appropriate Depositories are open for business.
- 4. "Collateral"** shall mean the investment property and all proceeds thereof held in the Account.

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5. **"Daily Collateral Report"** shall mean a report in a form as agreed between the Indenture Trustee and the Pledgor, containing the information required in Exhibit E to the Indenture.

6. **"Depository"** shall mean the Treasury/Reserve Automated Debt Entry System maintained at The Federal Reserve Bank of New York for receiving and delivering securities, The Depository Trust Company and any other clearing corporation within the meaning of Section 8-102 of the UCC or otherwise authorized to act as a securities depository or clearing agency, and their respective successors and nominees.

7. **"Eligible Collateral"** shall mean cash, and the types of securities designated as Eligible Collateral on Schedule I attached hereto.

8. **"Indenture"** shall mean the Second Amended and Restated Indenture (as amended, supplemented or restated from time to time).

9. **"Indenture Trustee"** shall mean the Secured Party, as indenture trustee under the Indenture.

10. **"Margin Percentage"** shall mean the percentage indicated on Schedule I with respect to specific types of Eligible Collateral, as Schedule I may be amended from time to time.

11. **"Margin Value"** shall mean the amount obtained by dividing the Market Value of the Collateral by the applicable Margin Percentage.

12. **"Market Value of Eligible Collateral"** shall mean, with respect to each type of security constituting Eligible Collateral, the sum of (i) the market value of each such security in the Account based on the most recently available closing bid price for each such security as made available to Securities Intermediary by a recognized pricing service selected by Securities Intermediary; provided however, that if such service does not report a closing bid price for a particular security, the market value shall be as determined by Securities Intermediary in its sole discretion based on information furnished to Securities Intermediary by one or more brokers or dealers in such security, and (ii) accrued interest on each such security (to the extent not reflected in such market value).

13. **"Obligation Amount"** shall mean as of any Business Day, the principal amount of the Series A CP Notes outstanding pursuant to the Indenture.

14. **"Notice of Exclusive Control"** shall mean a written notice given by Secured Party to Securities Intermediary that Secured Party is exercising sole and exclusive control of the Collateral.

15. **"Oral Instructions"** shall mean verbal instructions received by Securities Intermediary.

16. **"Series A CP Notes"** shall mean the Issuer's senior, secured, commercial paper notes issued pursuant to the Indenture.

17. **"UCC"** shall mean the Uniform Commercial Code as in effect in the State of New York.

18. **"Written Instructions"** shall mean written communications received by Securities Intermediary via S.W.I.F.T., tested telex, letter, facsimile transmission, or other method or system specified by Securities Intermediary as available for use in connection with this Agreement.

The terms **"entitlement holder"**, **"entitlement order"**, **"financial asset"**, **"investment property"**, **"proceeds"**, **"security"**, **"security entitlement"** and **"securities intermediary"** shall have the meanings set forth in Articles 8 and 9 of the UCC. All times set forth herein shall be New York City time unless otherwise noted.

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**ARTICLE II**  
**APPOINTMENT AND STATUS OF SECURITIES INTERMEDIARY;**  
**ACCOUNT**

1. Appointment; Identification of Collateral. (a) Secured Party and Pledgor each hereby appoints Securities Intermediary to perform its duties as hereinafter set forth and authorizes Securities Intermediary to hold Collateral in the Account in registered form in its name or the name of its nominees. Securities Intermediary hereby accepts such appointment and agrees to establish and maintain the Account and appropriate records identifying the Collateral in the Account as pledged by Pledgor to Secured Party. Pledgor hereby authorizes Securities Intermediary to comply with all Oral and Written Instructions, including entitlement orders, originated by Secured Party with respect to the Collateral in accordance with this Agreement and the Indenture without further consent or direction from Pledgor or any other party.

2. Status of Securities Intermediary. The parties agree that Securities Intermediary is a securities intermediary, and intend that all securities held in the Account shall be treated as financial assets. This Agreement is intended by Secured Party and Pledgor to grant "control" of the Account to the Secured Party for purposes of perfection of Secured Party's security interest in the Collateral (granted pursuant to the Indenture) pursuant to Article 8 and Article 9 of the UCC, and Securities Intermediary hereby acknowledges that it has been advised of Pledgor's grant to the Secured Party of a security interest in the Account. Securities Intermediary makes no representation or warranties with respect to the creation or enforceability of any security interest in the Account or the Collateral.

3. Use of Depositories. Secured Party and Pledgor hereby authorize Securities Intermediary to utilize Depositories to the extent possible in connection with its performance hereunder. Collateral held by Securities Intermediary in a Depository will be held subject to the rules, terms and conditions of such Depository. Where Collateral is held in a Depository, Securities Intermediary shall identify on its records as belonging to Pledgor and pledged to Secured Party a quantity of securities as part of a fungible bulk of securities held in Securities Intermediary's account at such Depository. Securities deposited in a Depository will be represented in accounts which include only assets held by Securities Intermediary for its customers.

**ARTICLE III**  
**COLLATERAL SERVICES**

1. Obligation Amount; Collateral Eligibility. On each Business Day, Secured Party shall provide Written Instructions (which may be by Bank of New York Mellon internal email) to Securities Intermediary on or before the opening of business on such Business Day, indicating the Obligation Amount adjusted to remove any Series A CP Notes maturing or being redeemed on such Business Day for which payment has been received (separately identifying the amount of Series A CP Notes being issued on such Business Day, if any) with a copy to Pledgor and Pledgor agrees, on the same Business Day, to deliver or cause to be delivered to Securities Intermediary for deposit in the Account Eligible Collateral whose Margin Value is an amount not less than the Obligation Amount as described in Section 2 below. Securities Intermediary shall determine that the Collateral to be transferred to the Account constitutes Eligible Collateral and verify that the Margin Value of the Eligible Collateral is not less than the Obligation Amount. Securities which do not constitute Eligible Collateral shall not be transferred to the Account.

2. Marks to Market. Securities Intermediary shall mark-to-market the value of the Eligible Collateral in accordance with the following provisions.

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(a) If at the opening of any Business Day other than a Business Day on which Series A CP Notes are being issued, the Margin Value of Eligible Collateral is less than the Obligation Amount, Securities Intermediary shall provide notice of such shortfall to the Pledgor and to the Secured Party by 1:00 p.m. Pledgor agrees to deliver to Securities Intermediary for deposit in the Account upon such notice and on or before 3:30 p.m., additional Eligible Collateral ("Additional Collateral") in an amount such that the Margin Value of Eligible Collateral, including such Additional Collateral, equals or exceeds the Obligation Amount.

(b) On any Business Day on which Series A CP Notes are being issued, Pledgor agrees to deliver to Securities Intermediary for deposit in the Account on or before 12:00 noon, Additional Collateral in an amount at least equal to the amount of the Series A CP Notes to be issued that Business Day and shall by no later than 12:00 noon cure any Collateral deficiency identified by Securities Intermediary. If Pledgor has failed to deliver sufficient Eligible Collateral to meet or exceed the Obligation Amount as adjusted to reflect the additional amount of Series A CP Notes being issued that day (taking into account any maturities and redemptions on that day for which payment has been received), Securities Intermediary shall notify the Secured Party and Pledgor by 1:00 p.m. and the additional Series A CP Notes scheduled to close on such Business Day will not be issued.

(c) Securities Intermediary shall determine that all Additional Collateral to be transferred to the Account constitutes Eligible Collateral. Any Additional Collateral which does not constitute Eligible Collateral shall not be transferred to the Account. If after the close of trading on any Business Day the Margin Value of Eligible Collateral is greater than the Obligation Amount, Securities Intermediary is authorized to transfer from the Account Eligible Collateral in an amount equal to such excess in accordance with Oral or Written Instructions from Pledgor on such Business Day.

3. Substitutions. Until Securities Intermediary receives a Notice of Exclusive Control from Secured Party, and other than during such times as Securities Intermediary may advise that substitutions are not permissible, Securities Intermediary is authorized to act upon any Oral or Written Instructions from Pledgor to substitute other Eligible Collateral for any Collateral then held in the Account, provided that the Margin Value of the Eligible Collateral in the Account after such substitution (taken together with the Eligible Collateral not substituted hereunder) shall not be less than the Obligation Amount, provided, however, that on any Business Day on which Series A CP Notes are being issued, (x) prior to 12:00 noon the Obligation Amount shall not include the amount of Series A CP Notes being issued on such Business Day and (y) on and after 12:00 noon no substitutions shall be permitted. Notwithstanding the foregoing sentence, Pledgor covenants that on a Business Day other than one on which Series A CP Notes are being issued it will not substitute collateral after 3:30 p.m.; provided, however, that Securities Intermediary shall have no duty to ensure that Pledgor complies with the terms of the covenant contained in this sentence.

4. Payment of Proceeds. Until Securities Intermediary receives a Notice of Exclusive Control, Securities Intermediary shall transfer to Pledgor (whether by credit to Pledgor's clearing account at Securities Intermediary or otherwise) all proceeds received by it with respect to the Collateral. Subject to Section 2 hereof and the return of any excess Collateral as provided thereunder, after Securities Intermediary's receipt of a Notice of Exclusive Control, Securities Intermediary shall credit to the Account all proceeds received by it with respect to the Collateral.

5. Notice of Exclusive Control. Until Securities Intermediary receives a Notice of Exclusive Control, Securities Intermediary is authorized to act upon Pledgor's Oral or Written Instructions with respect to the Account and Collateral. Secured Party may, subject to the terms of the Indenture, exercise sole and exclusive control of the Account and the Collateral held therein at any time by delivering to Securities Intermediary a Notice of Exclusive Control. Upon receipt of a Notice of Exclusive Control, and a reasonable time to put it into effect, Securities Intermediary shall, without inquiry and in reliance upon such Notice, thereafter comply with Oral or Written Instructions (including entitlement orders) solely from Secured Party with respect to the Account.

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6. Securities Clearing Agreement and Security Agreement. Pledgor agrees that any fees, charges, expenses and other amounts owed to Securities Intermediary and incurred in connection with the performance of its duties hereunder and the maintenance and operation of the Account, including as a result of the advance of any funds to purchase or make payment on or against delivery of any investment property to be held in the Account, shall be "Losses" of the Securities Intermediary for purposes of the Securities Clearing Agreement between Pledgor and Securities Intermediary dated December 31, 2003 (the "Securities Clearing Agreement") (as such agreement may be amended or replaced), and such Losses shall constitute "Obligations" due to the Securities Intermediary under the Security Agreement dated December 31, 2003 given by Pledgor to Securities Intermediary (as such agreement may be amended or replaced).

7. Statements. Securities Intermediary shall furnish Pledgor and Secured Party with advices of transactions affecting the Account and monthly Account statements. Each of Pledgor and Secured Party may elect to receive advices and statements electronically through the Internet to an email address specified by it for such purpose. By electing to use the Internet for this purpose, each of Pledgor and Secured Party acknowledges that such transmissions are not encrypted and therefore are insecure. Each of Pledgor and Secured Party further acknowledges that there are other risks inherent in communicating through the Internet such as the possibility of virus contamination and disruptions in service, and agrees that Securities Intermediary shall not be responsible for any loss, damage or expense suffered or incurred by Pledgor, Secured Party, or any person claiming by or through Pledgor or Secured Party as a result of the use of such methods. On each Business Day, Securities Intermediary agrees to make available to the Indenture Trustee sufficient information to enable the Indenture Trustee to cause to be prepared and delivered by email to the Pledgor the Daily Collateral Report.

8. Notice of Adverse Claims. Upon receipt of written notice of any lien, encumbrance or adverse claim against the Account or any portion of the Collateral carried therein, Securities Intermediary shall use reasonable efforts to notify Secured Party and Pledgor as promptly as practicable under the circumstances.

#### **ARTICLE IV GENERAL TERMS AND CONDITIONS**

1. Standard of Care; Indemnification. (a) Except as otherwise expressly provided herein, Securities Intermediary shall not be liable for any costs, expenses, damages, liabilities or claims, including attorneys' fees ("Losses") incurred by or asserted against Pledgor or Secured Party, except those Losses arising out of the negligence or willful misconduct of Securities Intermediary. Securities Intermediary shall have no liability whatsoever for the action or inaction of any Depository. In no event shall Securities Intermediary be liable for special, indirect or consequential damages, or lost profits or loss of business, arising in connection with this Agreement.

(b) Secured Party, solely in its capacity as Indenture Trustee and only to the extent of available trust assets, and Pledgor agree, jointly and severally, to indemnify Securities Intermediary and hold Securities Intermediary harmless from and against any and all Losses sustained or incurred by or asserted against Securities Intermediary by reason of or as a result of any action or inaction, or arising out of Securities Intermediary's performance hereunder, including reasonable fees and expenses of counsel incurred by Securities Intermediary in a successful defense of claims by Pledgor or Secured Party; provided, that Pledgor and Secured Party shall not indemnify Securities Intermediary for those Losses arising out of Securities Intermediary's negligence or willful misconduct. This indemnity shall be a continuing obligation of Pledgor and Secured Party, their respective successors and assigns, notwithstanding the termination of this Agreement.

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2. No Obligation Regarding Quality of Collateral. Without limiting the generality of the foregoing, Securities Intermediary shall be under no obligation to inquire into, and shall not be liable for, any Losses incurred by Pledgor, Secured Party or any other person as a result of the receipt or acceptance of fraudulent, forged or invalid Collateral, or Collateral which otherwise is not freely transferable or deliverable without encumbrance in any relevant market.

3. No Responsibility Concerning Indenture. Pledgor and Secured Party hereby agree that, notwithstanding references to the Indenture in this Agreement, Securities Intermediary has no interest in, and no duty, responsibility or obligation with respect to, the Indenture (including without limitation, no duty, responsibility or obligation to monitor Pledgor's or Secured Party's compliance with the Indenture or to know the terms of the Indenture).

4. No Duty of Oversight. Securities Intermediary is not at any time under any duty to supervise the investment of, or to advise or make any recommendation for the purchase, sale, retention or disposition of any Collateral.

5. Advice of Counsel. Securities Intermediary may, with respect to questions of law, obtain the advice of counsel and shall be fully protected with respect to anything done or omitted by it in good faith in conformity with such advice.

6. No Collection Obligations. Securities Intermediary shall be under no obligation to take action to collect any amount payable on Collateral in default, or if payment is refused after due demand and presentment.

7. Fees and Expenses. Pledgor agrees to pay to Securities Intermediary the fees as may be agreed upon from time to time. Pledgor shall reimburse Securities Intermediary for all costs associated with transfers of Collateral to Securities Intermediary and records kept in connection with this Agreement. Pledgor shall also reimburse Securities Intermediary for out-of-pocket expenses which are a normal incident of the services provided hereunder.

8. Effectiveness of Instructions; Reliance; Risk Acknowledgements; Additional Terms. (a) Subject to the terms below, Securities Intermediary shall be entitled to rely upon any Written or Oral Instructions actually received by Securities Intermediary and reasonably believed by Securities Intermediary to be duly authorized and delivered. Secured Party and Pledgor each agrees (i) to forward to Securities Intermediary Written Instructions confirming its Oral Instructions by the close of business of the same day that such Oral Instructions are given to Securities Intermediary, and (ii) the fact that such confirming Written Instructions are not received or that contrary Written Instructions are received by Securities Intermediary shall in no way affect the validity or enforceability of transactions authorized and effected by Securities Intermediary pursuant to its Oral Instructions.

(b) If Securities Intermediary receives Written Instructions which appear on their face to have been transmitted by an Authorized Person via (i) computer facsimile, email, the Internet or other insecure electronic method, or (ii) secure electronic transmission containing applicable authorization codes, passwords and/or authentication keys, Secured Party and Pledgor each understands and agrees that Securities Intermediary cannot determine the identity of the actual sender of such Written Instructions and that Securities Intermediary shall conclusively presume that such Written Instructions have been sent by an Authorized Person. Secured Party and Pledgor shall be responsible for ensuring that only its Authorized Persons transmit such Written Instructions to Securities Intermediary and that all of its Authorized Persons treat applicable user and authorization codes, passwords and/or authentication keys with extreme care.

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(c) Secured Party and Pledgor each acknowledges and agrees that it is fully informed of the protections and risks associated with the various methods of transmitting Written Instructions to Securities Intermediary and that there may be more secure methods of transmitting Written Instructions than the method(s) selected by it. Secured Party and Pledgor each agrees that the security procedures (if any) to be followed in connection with its transmission of Written Instructions provide to it a commercially reasonable degree of protection in light of its particular needs and circumstances.

(d) If Secured Party or Pledgor elects to transmit Written Instructions through an on-line communication system offered by Securities Intermediary, its use thereof shall be subject to the Terms and Conditions attached hereto as Appendix I. If Secured Party or Pledgor elects (with Securities Intermediary's prior consent) to transmit Written Instructions through an on-line communications service owned or operated by a third party, it agrees that Securities Intermediary shall not be responsible or liable for the reliability or availability of any such service.

9. Inspection. Upon reasonable request and provided Securities Intermediary shall suffer no significant disruption of its normal activities, Secured Party or Pledgor shall have access to Securities Intermediary's books and records relating to the Account during Securities Intermediary's normal business hours. Upon reasonable request, copies of any such books and records shall be provided to Secured Party or Pledgor at its expense.

10. Account Disclosure. Securities Intermediary is authorized to supply any information regarding the Account which is required by any law or governmental regulation now or hereafter in effect and, to the extent permitted by law, agrees to provide notice of any such information request to Pledgor. Notwithstanding the foregoing, Securities Intermediary may freely disclose Secured Party's or Pledgor's name, address, securities position and other information to the extent required by the rules of any stock exchange or regulatory or self-regulatory organization or any order or decree of any court or administrative body that is binding on Securities Intermediary or any Depository or the terms of the organizational documents of the issuer of any Security or the terms of any Security itself.

11. Force Majeure. Securities Intermediary shall not be responsible or liable for any failure or delay in the performance of its obligations under this Agreement arising out of or caused, directly or indirectly, by circumstances beyond its reasonable control, including without limitation, acts of God; earthquakes; fires; floods; wars; civil or military disturbances; sabotage; epidemics; riots; interruptions, loss or malfunctions of utilities, computer (hardware or software) or communications service; accidents; labor disputes; acts of civil or military authority; governmental actions; inability to obtain labor, material, equipment or transportation.

12. Pricing Services. Securities Intermediary is authorized to utilize any generally recognized pricing information service (including brokers and dealers of securities) in order to perform its valuation responsibilities hereunder, and Secured Party and Pledgor agree that Securities Intermediary shall not be liable for any loss, damage or expense (including attorney's fees) incurred as a result of errors or omissions of any such pricing information service, broker or dealer.

13. No Implied Duties. Securities Intermediary shall have no duties or responsibilities whatsoever except such duties and responsibilities as are specifically set forth in this Agreement, and no covenant or obligation shall be implied against Securities Intermediary in connection with this Agreement.

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**ARTICLE V**  
**MISCELLANEOUS**

1. Termination. This Agreement shall terminate upon (a) Securities Intermediary's receipt of Written Instructions from Secured Party expressly stating that Secured Party no longer claims any security interest in the Collateral and Securities Intermediary's subsequent transfer of the Collateral from the Account pursuant to Pledgor's Written Instructions, (b) transfer of the Collateral to Secured Party subsequent to Securities Intermediary's receipt of a Notice of Exclusive Control, or (c) by any party upon not less than ninety (90) days prior written notice of termination to the other parties, provided that termination pursuant to (c) above shall not affect or terminate Secured Party's security interest in the Collateral. Upon termination pursuant to (c) above, Securities Intermediary shall follow all reasonable joint Written Instructions of Secured Party and Pledgor concerning the transfer of Collateral. Except as otherwise provided herein, all obligations of the parties to each other hereunder shall cease upon termination of this Agreement.

2. Certificates of Authorized Persons. Secured Party and Pledgor agree to furnish to Securities Intermediary a new Certificate of Authorized Persons in the event of any change in the then present Authorized Persons. Until such new Certificate is received, Securities Intermediary shall be fully protected in acting upon Written Instructions of such present Authorized Persons.

3. Notices. (a) Any notice or other instrument in writing, authorized or required by this Agreement to be given to Securities Intermediary, shall be sufficiently given if addressed to Securities Intermediary and received by it at its offices at One Wall Street, New York, New York 10286, or at such other place as Securities Intermediary may from time to time designate in writing.

(b) Any notice or other instrument in writing, authorized or required by this Agreement to be given to Secured Party shall be sufficiently given if addressed to Secured Party and received by it at its offices at 101 Barclay Street, 7W New York, NY 10286, Attention: Corporate Trust Administration, Dealing & Trading or at such other place as Secured Party may from time to time designate in writing.

(c) Any notice or other instrument in writing, authorized or required by this Agreement to be given to Pledgor shall be sufficiently given if addressed to Pledgor and received by it at its offices at Piper Jaffray & Co., 800 Nicollet Mall, Minneapolis, MN 55402; Attention: Treasury Department or at such other place as Pledgor may from time to time designate in writing.

4. Cumulative Rights; No Waiver. Each and every right granted to Securities Intermediary hereunder or under any other document delivered hereunder or in connection herewith, or allowed it by law or equity, shall be cumulative and may be exercised from time to time. No failure on the part of Securities Intermediary to exercise, and no delay in exercising, any right will operate as a waiver thereof, nor will any single or partial exercise by Securities Intermediary of any right preclude any other future exercise thereof or the exercise of any other right.

5. Severability; Amendments; Assignment. In case any provision in or obligation under this Agreement shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions shall not in any way be affected thereby. This Agreement may not be amended or modified in any manner except by a written agreement executed by the parties hereto. This Agreement shall extend to and shall be binding upon the parties hereto, and their respective successors and assigns; provided, however, that this Agreement shall not be assignable by any party without the written consent of the other parties.

6. Governing Law; Jurisdiction; Waiver of Immunity; Jury Trial Waiver. This Agreement and the Account shall be governed by and construed in accordance with the substantive laws of the State of New York, without regard to conflicts of laws principles thereof. The State of New York shall be deemed to be the location of the Securities Intermediary. Secured Party, Pledgor and Securities Intermediary hereby consent to the jurisdiction of a state or federal court situated in New York City, New York in connection with any dispute arising hereunder. To the extent that in any jurisdiction Secured Party or Pledgor may now or hereafter be entitled to claim, for itself or its assets, immunity from suit, execution, attachment (before or after judgment) or other legal process, Secured Party and Pledgor each irrevocably agrees not to claim, and hereby waives, such immunity. Secured Party, Pledgor and Securities Intermediary each hereby irrevocably waives any and all rights to trial by jury in any legal proceeding arising out of or relating to this Agreement.

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7. No Third Party Beneficiaries. In performing hereunder, Securities Intermediary is acting solely on behalf of Secured Party and Pledgor and no contractual or service relationship shall be deemed to be established hereby between Securities Intermediary and any other person.

8. Headings. Section headings are included in this Agreement for convenience only and shall have no substantive effect on its interpretation.

9. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but such counterparts shall, together, constitute only one instrument.

10. USA PATRIOT ACT. Pledgor and Secured Party hereby acknowledge that Securities Intermediary is subject to federal laws, including the Customer Identification Program (CIP) requirements under the USA PATRIOT Act and its implementing regulations, pursuant to which Securities Intermediary must obtain, verify and record information that allows Securities Intermediary to identify each of Pledgor and Secured Party. Accordingly, prior to opening an Account hereunder Securities Intermediary will ask Pledgor and/or Secured Party to provide certain information including, but not limited to, Pledgor's and/or Secured Party's name, physical address, tax identification number and other information that will help Securities Intermediary to identify and verify each of Pledgor's and Secured Party's identity such as organizational documents, certificate of good standing, license to do business, or other pertinent identifying information.

**IN WITNESS WHEREOF**, Secured Party, Pledgor and Securities Intermediary have caused this Agreement to be executed by their respective officers, thereunto duly authorized, as of the day and year first above written.

**THE BANK OF NEW YORK MELLON, not in its individual capacity but solely as Indenture Trustee**

By: \_\_\_\_\_  
Title: \_\_\_\_\_

**PIPER JAFFRAY & CO.**

By: \_\_\_\_\_  
Title: \_\_\_\_\_

**THE BANK OF NEW YORK MELLON, as Securities Intermediary**

By: \_\_\_\_\_  
Title: \_\_\_\_\_

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**SCHEDULE I**

**ELIGIBLE COLLATERAL**

Eligible Collateral:

Dated: \_\_\_\_\_

Margin Percentage

By \_\_\_\_\_  
Title: \_\_\_\_\_

By \_\_\_\_\_  
Title: \_\_\_\_\_

ACCEPTED:  
THE BANK OF NEW YORK MELLON  
By \_\_\_\_\_  
Title: \_\_\_\_\_

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**SCHEDULE II**

**AUTHORIZED PERSONS**

The following individuals have been designated as Authorized Persons of Secured Party and Pledgor, respectively, in connection with the Second Amended and Restated Collateral Account Control Agreement dated as of \_\_\_\_\_.

**SECURED PARTY**

Name

Signature

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**PLEDGOR**

Name

Signature

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## APPENDIX I

### ELECTRONIC SERVICES TERMS AND CONDITIONS

1. **License; Use.** (a) This Appendix I shall govern Customer's use of electronic communications, information delivery, portfolio management and banking services, that The Bank of New York Mellon and its affiliates ("BNYM") may provide to Customer, such as The Bank of New York Mellon Inform and The Bank of New York Mellon CASH-Register Plus<sup>®</sup>, and any computer software, proprietary data and documentation provided by BNYM to Customer in connection therewith (collectively, the "**Electronic Services**"). In the event of any conflict between the terms of this Appendix I and the main body of this Agreement with respect to Customer's use of the Electronic Services, the terms of this Appendix I shall control.

(b) BNYM grants to Customer a personal, nontransferable and nonexclusive license to use the Electronic Services to which Customer subscribes solely for the purpose of transmitting instructions and information ("Written Instructions"), obtaining reports, analyses and statements and other information and data, making inquiries and otherwise communicating with BNYM in connection with the Customer's relationship with BNYM. Customer shall use the Electronic Services solely for its own internal and proper business purposes and not in the operation of a service bureau. Except as set forth herein, no license or right of any kind is granted to Customer with respect to the Electronic Services. Customer acknowledges that BNYM and its suppliers retain and have title and exclusive proprietary rights to the Electronic Services, including any trade secrets or other ideas, concepts, know-how, methodologies, and information incorporated therein and the exclusive rights to any copyrights, trade dress, look and feel, trademarks and patents (including registrations and applications for registration of either), and other legal protections available in respect thereof. Customer further acknowledges that all or a part of the Electronic Services may be copyrighted or trademarked (or a registration or claim made therefor) by BNYM or its suppliers. Customer shall not take any action with respect to the Electronic Services inconsistent with the foregoing acknowledgments, nor shall Customer attempt to decompile, reverse engineer or modify the Electronic Services. Customer may not copy, distribute, sell, lease or provide, directly or indirectly, the Electronic Services or any portion thereof to any other person or entity without BNYM's prior written consent. Customer may not remove any statutory copyright notice or other notice included in the Electronic Services. Customer shall reproduce any such notice on any reproduction of any portion of the Electronic Services and shall add any statutory copyright notice or other notice upon BNYM's request.

(c) Portions of the Electronic Services may contain, deliver or rely on data supplied by third parties ("Third Party Data"), such as pricing data and indicative data, and services supplied by third parties ("Third Party Services") such as analytic and accounting services. Third Party Data and Third Party Services supplied hereunder are obtained from sources that BNYM believes to be reliable but are provided without any independent investigation by BNYM. BNYM and its suppliers do not represent or warrant that the Third Party Data or Third Party Services are correct, complete or current. Third Party Data and Third Party Services are proprietary to their suppliers, are provided solely for Customer's internal use, and may not be reused, disseminated or redistributed in any form. Customer shall not use any Third Party Data in any manner that would act as a substitute for obtaining a license for the data directly from the supplier. Third Party Data and Third Party Services should not be used in making any investment decision. **BNYM AND ITS SUPPLIERS ARE NOT RESPONSIBLE FOR ANY RESULTS OBTAINED FROM THE USE OF OR RELIANCE UPON THIRD PARTY DATA OR THIRD PARTY SERVICES.** BNYM's suppliers of Third Party Data and Services are intended third party beneficiaries of this Section 1(c) and Section 5 below.

(d) Customer understands and agrees that any links in the Electronic Services to Internet sites may be to sites sponsored and maintained by third parties. BNYM make no guarantees, representations or warranties concerning the information contained in any third party site (including without limitation that such information is correct, current, complete or free of viruses or other contamination), or any products or services sold through third party sites. All such links to third party Internet sites are provided solely as a convenience to Customer and Customer accesses and uses such sites at its own risk. A link in the Electronic Services to a third party site does not constitute BNYM's endorsement, authorization or sponsorship of such site or any products and services available from such site.

2. **Equipment.** Customer shall obtain and maintain at its own cost and expense all equipment and services, including but not limited to communications services, necessary for it to utilize and obtain access to the Electronic Services, and BNYM shall not be responsible for the reliability or availability of any such equipment or services.

3. **Proprietary Information.** The Electronic Services, and any proprietary data (including Third Party Data), processes, software, information and documentation made available to Customer (other than which are or become part of the public domain or are legally required to be made available to the public) (collectively, the "Information"), are the exclusive and confidential property of BNYM or its suppliers. However, for the avoidance of doubt, reports generated by Customer containing information relating to its account(s) (except for Third Party Data contained therein) are not deemed to be within the meaning of the term "Information." Customer shall keep the Information confidential by using the same care and discretion that Customer uses with respect to its own confidential property and trade secrets, but not less than reasonable care. Upon termination of the Agreement or the licenses granted herein for any reason, Customer shall return to BNYM any and all copies of the Information which are in its possession or under its control (except that Customer may retain reports containing Third Party Data, provided that such Third Party Data remains subject to the provisions of this Appendix). The provisions of this Section 3 shall not affect the copyright status of any of the Information which may be copyrighted and shall apply to all information whether or not copyrighted.

4. **Modifications.** BNYM reserves the right to modify the Electronic Services from time to time. Customer agrees not to modify or attempt to modify the Electronic Services without BNYM's prior written consent. Customer acknowledges that any modifications to the Electronic Services, whether by Customer or BNYM and whether with or without BNYM's consent, shall become the property of BNYM.

5. **NO REPRESENTATIONS OR WARRANTIES; LIMITATION OF LIABILITY.** BNYM AND ITS MANUFACTURERS AND SUPPLIERS MAKE NO WARRANTIES OR REPRESENTATIONS WITH RESPECT TO THE ELECTRONIC SERVICES OR ANY THIRD PARTY DATA OR THIRD PARTY SERVICES, EXPRESS OR IMPLIED, IN FACT OR IN LAW, INCLUDING BUT NOT LIMITED TO WARRANTIES OF MERCHANTABILITY, NON-INFRINGEMENT AND FITNESS FOR A PARTICULAR PURPOSE. CUSTOMER ACKNOWLEDGES THAT THE ELECTRONIC SERVICES, THIRD PARTY DATA AND THIRD

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PARTY SERVICES ARE PROVIDED "AS IS." TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, IN NO EVENT SHALL BNYM OR ANY SUPPLIER BE LIABLE FOR ANY DAMAGES, WHETHER DIRECT, INDIRECT SPECIAL, OR CONSEQUENTIAL, WHICH CUSTOMER MAY INCUR IN CONNECTION WITH THE ELECTRONIC SERVICES, THIRD PARTY DATA OR THIRD PARTY SERVICES, EVEN IF BNYM OR SUCH SUPPLIER KNEW OF THE POSSIBILITY OF SUCH DAMAGES. IN NO EVENT SHALL BNYM OR ANY SUPPLIER BE LIABLE FOR ACTS OF GOD, MACHINE OR COMPUTER BREAKDOWN OR MALFUNCTION, INTERRUPTION OR MALFUNCTION OF COMMUNICATION FACILITIES, LABOR DIFFICULTIES OR ANY OTHER SIMILAR OR DISSIMILAR CAUSE BEYOND THEIR REASONABLE CONTROL.

6. Security; Reliance; Unauthorized Use; Funds Transfers. BNYM will establish security procedures to be followed in connection with the use of the Electronic Services, and Customer agrees to comply with the security procedures. Customer understands and agrees that the security procedures are intended to determine whether instructions received by BNYM through the Electronic Services are authorized but are not (unless otherwise specified in writing) intended to detect any errors contained in such instructions. Customer will cause all persons utilizing the Electronic Services to treat any user and authorization codes, passwords, authentication keys and other security devices with the highest degree of care and confidentiality. Upon termination of Customer's use of the Electronic Services, Customer shall return to BNYM any security devices (e.g., token cards) provided by BNYM. BNYM is hereby irrevocably authorized to comply with and rely upon on Written Instructions and other communications, whether or not authorized, received by it through the Electronic Services. Customer acknowledges that it has sole responsibility for ensuring that only Authorized Persons use the Electronic Services and that to the fullest extent permitted by applicable law BNYM shall not be responsible nor liable for any unauthorized use thereof or for any losses sustained by Customer arising from or in connection with the use of the Electronic Services or BNYM's reliance upon and compliance with Written Instructions and other communications received through the Electronic Services. With respect to instructions for a transfer of funds issued through the Electronic Services, when instructed to credit or pay a party by both name and a unique numeric or alpha-numeric identifier (e.g. ABA number or account number), the BNYM, its affiliates, and any other bank participating in the funds transfer, may rely solely on the unique identifier, even if it identifies a party different than the party named. Such reliance on a unique identifier shall apply to beneficiaries named in such instructions as well as any financial institution which is designated in such instructions to act as an intermediary in a funds transfer. It is understood and agreed that unless otherwise specifically provided herein, and to the extent permitted by applicable law, the parties hereto shall be bound by the rules of any funds transfer system utilized to effect a funds transfer hereunder.

7. Acknowledgments. BNYM shall acknowledge through the Electronic Services its receipt of each Written Instruction communicated through the Electronic Services, and in the absence of such acknowledgment BNYM shall not be liable for any failure to act in accordance with such Written Instruction and Customer may not claim that such Written Instruction was received by BNYM. BNYM may in its discretion decline to act upon any instructions or communications that are insufficient or incomplete or are not received by BNYM in sufficient time for BNYM to act upon, or in accordance with such instructions or communications.

8. Viruses. Customer agrees to use reasonable efforts to prevent the transmission through the Electronic Services of any software or file which contains any viruses, worms, harmful component or corrupted data and agrees not to use any device, software, or routine to interfere or attempt to interfere with the proper working of the Electronic Services.

9. Encryption. Customer acknowledges and agrees that encryption may not be available for every communication through the Electronic Services, or for all data. Customer agrees that BNYM may deactivate any encryption features at any time, without notice or liability to Customer, for the purpose of maintaining, repairing or troubleshooting its systems.

10. On-Line Inquiry and Modification of Records. In connection with Customer's use of the Electronic Services, BNYM may, at Customer's request, permit Customer to enter data directly into a BNYM database for the purpose of modifying certain information maintained by BNYM's systems, including, but not limited to, change of address information. To the extent that Customer is granted such access, Customer agrees to indemnify and hold BNYM harmless from all loss, liability, cost, damage and expense (including attorney's fees and expenses) to which BNYM may be subjected or which may be incurred in connection with any claim which may arise out of or as a result of changes to BNYM database records initiated by Customer.

11. Agents. Customer may, on advance written notice to the BNYM, permit its agents and contractors ("Agents") to access and use the Electronic Services on Customer's behalf, except that the BNYM reserves the right to prohibit Customer's use of any particular Agent for any reason. Customer shall require its Agent(s) to agree in writing to be bound by the terms of the Agreement, and Customer shall be liable and responsible for any act or omission of such Agent in the same manner, and to the same extent, as though such act or omission were that of Customer. Each submission of a Written Instruction or other communication by the Agent through the Electronic Services shall constitute a representation and warranty by the Customer that the Agent continues to be duly authorized by the Customer to so act on its behalf and the BNYM may rely on the representations and warranties made herein in complying with such Written Instruction or communication. Any Written Instruction or other communication through the Electronic Services by an Agent shall be deemed that of Customer, and Customer shall be bound thereby whether or not authorized. Customer may, subject to the terms of this Agreement and upon advance written notice to the Bank, provide a copy of the Electronic Service user manuals to its Agent if the Agent requires such copies to use the Electronic Services on Customer's behalf. Upon cessation of any such Agent's services, Customer shall promptly terminate such Agent's access to the Electronic Services, retrieve from the Agent any copies of the manuals and destroy them, and retrieve from the Agent any token cards or other security devices provided by BNYM and return them to BNYM.

**PIPER JAFFRAY COMPANIES  
AMENDED AND RESTATED  
2003 ANNUAL AND LONG-TERM INCENTIVE PLAN  
PERFORMANCE SHARE UNIT AGREEMENT**

Name of Employee:

No. of Performance Share Units Covered:

Date of Issuance:

This is a Performance Share Unit Agreement ("Agreement") between Piper Jaffray Companies, a Delaware corporation (the "Company"), and the above-named employee of the Company (the "Employee").

**Recitals**

WHEREAS, the Company maintains the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan, as amended from time to time (the "Plan");

WHEREAS, the Board of Directors of the Company has delegated to the Compensation Committee (the "Committee") the authority to determine the awards to be granted under the Plan; and

WHEREAS, the Committee or its delegee has determined that the Employee is eligible to receive an award under the Plan in the form of performance share units and has set the terms thereof;

NOW, THEREFORE, the Company hereby grants this award to the Employee under the terms set by the Committee as follows.

**Terms and Conditions\***

**1. Grant of Performance Share Units.**

(a) Subject to the terms and conditions of this Agreement, the Company has granted to the Employee the number of Performance Share Units specified at the beginning of this Agreement. These Performance Share Units are subject to the terms and conditions of this Agreement and are referred to collectively as the "Performance Share Units" and each as a "Performance Share Unit."

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\* Unless the context indicates otherwise, terms that are not defined in this Agreement shall have the meaning set forth in the Plan.

(b) The Performance Share Units granted to the Employee shall be credited to an account in the Employee's name. This account shall be a record of book-keeping entries only and shall be utilized solely as a device for the measurement and determination of the number of Shares to be granted to or in respect of the Employee pursuant to this Agreement.

**2. Vesting.** Except as provided in Section 4, the Performance Share Units will vest on the last day of the Performance Period to the extent such Performance Share Units are earned pursuant to Section 3.

**3. Earned Performance Share Units.**

(a) If the Employee remains continuously employed (including during the continuance of any leave of absence as approved by the Company or an Affiliate) by the Company or an Affiliate, the number of the Performance Share Units that will be earned pursuant to this Section 3(a) will be determined by reference to the Company's Total Shareholder Return relative to the Total Shareholder Return of the Peer Group as provided in the table below:

<b>Company Total Shareholder Return Relative to Peer Group</b>	<b>% of Performance Share Units</b>
Below 50th percentile	0%
50th percentile	25%
75th percentile or above	50%

Note: Interpolation between points in the table above will be on a straight-line basis.

(b) If the Employee remains continuously employed (including during the continuance of any leave of absence as approved by the Company or an Affiliate) by the Company or an Affiliate, the number of the Performance Share Units that will be earned pursuant to this Section 3(b) will be determined by reference to the Company's Total Shareholder Return as provided in the table below:

<b>Company Total Shareholder Return</b>	<b>% of Performance Share Units</b>
Below 15%	0%
15% — 24.9%	12.5%
25% — 34.9%	25%
35% — 39.9%	37.5%
40% or greater	50%

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(c) As used in this Agreement, the following terms have the meanings provided below:

(i) "Beginning Price" with respect to a company means the average closing price of a share of common stock of such company as reported by such company's primary national securities market or exchange at the end of each trading day during the 60 calendar days immediately prior to the first day of the Performance Period.

(ii) "Dividends" with respect to a company means the per share amount of each cash or stock dividend paid by such company with respect to its common stock during the Performance Period. All such dividends will be deemed to be reinvested in such company's common stock for purposes of calculating Total Shareholder Return hereunder.

(iii) "End Price" with respect to a company means the average closing price of a share of common stock of such company as reported by such company's primary national securities market or exchange at the end of each trading day during the last 60 calendar days of the Performance Period.

(iv) "Peer Group" means the following companies: (i) Cowen Group, Inc.; (ii) Evercore Partners Inc.; (iii) FBR & Co.; (iv) Gleacher & Company, Inc.; (v) Jefferies Group Inc.; (vi) JMP Group Inc.; (vii) KBW, Inc.; (viii) Lazard Ltd; (ix) Oppenheimer Holdings Inc.; and (x) Stifel Financial Corp. If, after the date of this Agreement and prior to the end of the Performance Period (A) a member of the Peer Group is acquired by a company not included in the Peer Group, then the acquired company will be removed from the Peer Group effective as of the beginning of the Performance Period; (B) a member of the Peer Group is acquired by a company that is included in the Peer Group, then the acquired company will be removed from the Peer Group effective as of the beginning of the Performance Period and the acquiring company (or its successor, by merger or otherwise) will remain a member of the Peer Group subject to the other terms of this Section 3(c)(iv); and (C) any member of the Peer Group ceases continuing operations or ceases to be traded on a national securities market or exchange (other than in connection with an acquisition of such company), then such company will continue to be a member of the Peer Group and the End Price for such company will be deemed to be zero.

(v) "Performance Period" means the 36-month period beginning on May 15, 2012 and ending on May 14, 2015.

(vi) "Total Shareholder Return" with respect to a company means  $((\text{End Price} + \text{Dividends}) - \text{Beginning Price}) / \text{Beginning Price}$ .

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(vii) The Beginning Price, End Price and amount of Dividends for the Company and each company that is part of the Peer Group may be adjusted by the Committee to account for any change in capitalization such as a stock split or a corporate transaction (such as any merger, consolidation, separation, including a spin-off, or other distribution of stock or property of such company (including any extraordinary cash or stock dividend)) in the Committee's sole discretion.

(d) Notwithstanding the foregoing, if the Employee's employment with the Company or an Affiliate terminates because of the Employee's death or long-term disability (as defined in the Company's long-term disability plan, as the same may be amended hereafter, a "Disability"), then the number of Performance Share Units that will be earned will equal (i) the number of Performance Share Units that would otherwise be earned pursuant to Sections 3(a) and 3(b) but for the Employee's termination multiplied by (ii) a fraction, (x) the numerator of which is the number of days during the Performance Period up to and including the date of termination of the Employee's employment with the Company or an Affiliate and (y) the denominator of which is the total number of days in the Performance Period.

(e) Notwithstanding the foregoing, if the Employee's employment by the Company or an Affiliate terminates as a result of a Severance Event (as defined in the Company's Severance Plan, as the same may be amended hereafter, and as determined in the sole discretion of the Company) or under such circumstances determined to constitute retirement by the Committee in its sole discretion, then the number of Performance Share Units that will be earned will equal (i) the number of Performance Share Units that would otherwise be earned pursuant to Sections 3(a) and 3(b) but for the Employee's termination multiplied by (ii) a fraction, (x) the numerator of which is the number of days during the Performance Period up to and including the date of termination of the Employee's employment with the Company or an Affiliate and (y) the denominator of which is the total number of days in the Performance Period.

(f) Except as expressly provided herein, no Performance Share Units will vest based on any termination of the Employee's employment by the Company or an Affiliate (whether voluntary or involuntary).

(g) The Performance Share Units that are earned pursuant to this Section 3 will be determined by the Committee's certification of attainment of the applicable Performance Goal hereunder as provided in Section 5.

**4. Change in Control.** If a Change in Control occurs during the Performance Period, then, notwithstanding the other terms of this Agreement or Section 7 of the Plan:

(a) Each Performance Share Unit automatically will become one Share of Restricted Stock (each a "Restricted Share" and collectively the "Restricted Shares"), and, on the closing date of the Change in Control, Company will cause its transfer agent to make a book entry in the transfer agent's records in the name of the Employee (unless the Employee requests a certificate evidencing the Restricted Shares). All restrictions provided

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for in this Section 4 will apply to each Restricted Share and to any other securities distributed with respect to that Restricted Share. Each Restricted Share will remain restricted and subject to forfeiture to the Company unless and until that Restricted Share has vested in the Employee in accordance this Section 4. Each book entry (or stock certificate if requested by the Employee) evidencing any Restricted Share may contain such notations or legends and stock transfer instructions or limitations as may be determined or authorized by the Company in its sole discretion. If a certificate evidencing any Restricted Share is requested by the Employee, the Company may, in its sole discretion, retain custody of any such certificate throughout the period during which any restrictions are in effect and require, as a condition to issuing any such certificate, that the Employee tender to the Company a stock power duly executed in blank relating to such custody. The Company will not be required (i) to transfer on its books any Restricted Shares that have been sold or otherwise transferred in violation of any of the provisions of this Agreement or (ii) to treat as owner of the Restricted Shares or to accord the right to vote or pay dividends to any purchaser or other transferee to whom the Restricted Shares shall have been so transferred.

(b) If the Change in Control is a Corporate Transaction, the Company shall arrange for the surviving entity or acquiring entity (or the surviving or acquiring entity's parent company) to assume or continue the Award evidenced hereby or to substitute a similar award for the Award evidenced hereby, in each case as determined by the Committee in its sole discretion.

(c) If the Employee's employment with the Company or an Affiliate is terminated after the closing of the Change in Control and prior to the end of the Performance Period (i) by the Company or an Affiliate without Cause, (ii) by the Employee for Good Reason, (iii) in connection with the Employee's death or Disability or (iv) under such circumstances determined to constitute

retirement by the Committee in its sole discretion, all unvested Restricted Shares will vest on the date of termination of the Employee's employment with the Company or an Affiliate.

(d) Provided the Employee remains continuously employed (including during the continuance of any leave of absence as approved by the Company or an Affiliate) by the Company or an Affiliate after the closing of the Change in Control through the end of the Performance Period, all unvested Restricted Shares as of the last day of the Performance Period will vest on such date.

(e) For purposes of this Agreement,

(i) "Good Reason" means (1) a material diminution of the Employee's duties; (2) a significant, adverse reduction in the Employee's title; or (3) any relocation of the Employee's principal place of business to a location more than a 30 mile radius from its current location; and

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(ii) "Cause" means (1) the Employee's continued failure to substantially perform his or her duties with the Company or an Affiliate after written demand for substantial performance is delivered to the Employee; (2) the Employee's conviction of a crime (including a misdemeanor) that, in the Company's determination, impairs the Employee's ability to perform his or her duties with the Company or an Affiliate, (3) the Employee's violation of any policy of the Company or an Affiliate that the Company deems material; (4) the Employee's violation of any securities law, rule or regulation that the Company deems material; (5) the Employee's engagement in conduct that, in the Company's determination, exposes the Company or an Affiliate to civil or regulatory liability or injury to their reputations; (6) the Employee's engagement in conduct that would subject the Employee to statutory disqualification pursuant to Section 15(b) of the Exchange Act and the regulations promulgated thereunder; or (7) the Employee's gross or willful misconduct, as determined by the Company.

## **5. Settlement.**

(a) After any Performance Share Units vest in accordance with Section 2, the Company shall cause to be issued to the Employee, or to the Employee's designated beneficiary or estate in the event of the Employee's death, one Share in payment and settlement of each vested Performance Share Unit. The Committee shall certify the Total Shareholder Return of the Company and the number of Performance Share Units (if any) that are earned pursuant to the terms and conditions hereof, and the Company shall cause the Shares issuable in connection with the vesting of any such Performance Share Units to be issued, on or before the 15th day of the third calendar month after the date on which the vesting of Performance Share Units occurs, and the Employee shall have no power to affect the timing of such issuance. Such issuance shall be evidenced by a stock certificate or appropriate entry on the books of the Company or a duly authorized transfer agent of the Company, shall be subject to the tax withholding provisions of Section 8, and shall be in complete settlement and satisfaction of such vested Performance Share Units. Notwithstanding the foregoing, if the ownership of or issuance of Shares to the Employee as provided herein is not feasible due to applicable exchange controls, securities or tax laws or other provisions of applicable law, as determined by the Committee in its sole discretion the Employee or the Employee's legal representative shall receive cash proceeds in an amount equal to the Fair Market Value (as of the date the applicable Performance Share Units are vested) of the Shares otherwise issuable to the Employee or the Employee's legal representative, net of any amount required to satisfy withholding tax obligations as provided in Section 8.

(b) Upon the vesting of any Restricted Shares, such vested Restricted Shares will no longer be subject to forfeiture as provided in Section 6 and the Company will, or will cause its transfer agent to, remove all notations and legends and revoke all stock transfer instructions from the book entry or stock certificate evidencing the Restricted Shares so vested as may have been made or given as a result of the terms of this Agreement, and the Company will deliver to the Employee, or the Employee's designated beneficiary or estate in the event of the Employee's death, all certificates (or replacement certificates removing all legends contemplated hereby) in the Company's custody relating to the Restricted Shares.

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(c) Notwithstanding the foregoing, if the common equity of the surviving entity or acquiring entity (or the surviving or acquiring entity's parent company) in any Corporate Transaction is not listed or quoted on an established securities market at the time of vesting of any Restricted Shares, the Company will deliver to the Employee or the Employee's designated beneficiary or estate in the event of the Employee's death, in lieu of shares of capital stock not subject to restrictions pursuant hereto, cash in an amount equal to the Fair Market Value (as of the date of closing of the Corporate Transaction) of the Restricted Shares vested pursuant to the terms hereof, net of any amount required to satisfy withholding tax obligations as provided in Section 8.

**6. Forfeiture.** If (i) the Employee attempts to pledge, encumber, assign, transfer or otherwise dispose of any of the Performance Share Units or, prior to vesting, any Restricted Shares without the Committee's prior written consent or other than by will or by the laws of descent and distribution, or if the Performance Share Units or Restricted Shares become subject to attachment or any similar involuntary process in violation of this Agreement; (ii) the Employee's employment with the Company or an Affiliate is terminated other than (1) due to the Employee's death or Disability, (2) as a result of a Severance Event, (3) under such circumstances determined to constitute retirement (as determined by the Committee in its sole discretion), (4) by the Company or an Affiliate without Cause following a Change in Control or (5) by the Employee for Good Reason following a Change in Control; or (iii) the Employee fails to comply with the terms and conditions of the Severance Plan and the applicable severance agreement with the Employee, including execution of a general release of all claims against the Company and any designated Affiliates and their respective agents, on a form provided by the Company for this purpose and within the timeframe designated by the Company, that becomes effective and enforceable, then any Performance Share Units or Restricted Shares (as applicable) that have not previously vested automatically will be forfeited by the Employee. Any Performance Share Units or Restricted Shares that are unvested as of the last day of the Performance Period also shall be forfeited.

**7. Stockholder Rights.** The Performance Share Units do not entitle the Employee to any rights of a stockholder of the Company, including the right to receive any dividends declared or paid by the Company. As of the date of issuance, the Employee shall have all of the rights of a stockholder of the Company with respect to any Restricted Shares issued pursuant hereto, except as otherwise specifically provided in this Agreement. The Employee's rights with respect to the Performance Share Units and Restricted Shares shall remain forfeitable at all times by the Employee until satisfaction of the vesting conditions set forth herein.

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**8. Tax Withholding.** The parties hereto recognize that the Company or an Affiliate may be obligated to withhold federal and state taxes or other taxes upon the vesting of the Performance Share Units or Restricted Stock or, in the event that the Employee elects under Code Section 83(b) to report the receipt of the Restricted Shares as income in the year of receipt, upon the Employee's receipt of the Restricted Shares. The Employee agrees that, at such time, if the Company or an Affiliate is required to withhold such taxes, the Employee will promptly pay, in cash upon demand (or in any other manner permitted by the Committee in accordance with the terms of the Plan), to the Company or an Affiliate such amounts as shall be necessary to satisfy such obligation, and the issuance of Shares in connection with the vesting of any Performance Share Units shall be conditioned upon the prior payment by the Employee, or the establishment of arrangements satisfactory to the Committee for the payment by the Employee, of such obligation. The Employee further acknowledges that the Company has directed the Employee to seek independent advice regarding the applicable provisions of the Code, the income tax laws of any municipality, state or foreign country in which the Employee may reside, and the tax consequences of the Employee's death.

**9. Interpretation of This Agreement.** All decisions and interpretations made by the Committee with regard to any question arising hereunder or under the Plan shall be binding and conclusive upon the Company and the Employee. If there is any inconsistency between the provisions of this Agreement and the Plan, the provisions of the Plan shall govern.

**10. Not Part of Employment Contract; Discontinuance of Employment.** The Employee acknowledges that this Agreement awards performance share units to the Employee, but does not impose any obligation on the Company to make any future grants or issue any future Awards to the Employee or otherwise continue the participation of the Employee under the Plan. This Agreement does not constitute a contract of employment, shall not give the Employee a right to continued employment with the Company or any Affiliate, and the Company or Affiliate employing the Employee may terminate his or her employment and otherwise deal with the Employee without regard to the effect it may have upon him or her under this Agreement.

**11. Binding Effect.** This Agreement shall be binding in all respects on the heirs, representatives, successors and assigns of the Employee.

**12. Choice of Law.** This Agreement is entered into under the laws of the State of Delaware and shall be construed and interpreted thereunder (without regard to its conflict-of-law principles).

**13. Entire Agreement.** This Agreement and the Plan set forth the entire agreement and understanding of the parties hereto with respect to the issuance of the Performance Share Units or Restricted Shares in lieu thereof and the administration of the Plan and supersede all prior agreements, arrangements, plans, and understandings relating to the issuance of the Performance Share Units, Restricted Shares in lieu thereof and the administration of the Plan.

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**14. Securities Law Compliance.** No Shares shall be delivered upon the vesting and settlement of any Performance Share Units unless and until the Company and/or the Employee shall have complied with all applicable federal, state or foreign registration, listing and/or qualification requirements and all other requirements of law or of any regulatory agencies having jurisdiction, unless the Committee has received evidence satisfactory to it that the Employee may acquire such shares pursuant to an exemption from registration under the applicable securities laws. Any determination in this connection by the Committee shall be final, binding, and conclusive. The Company reserves the right to legend any Share certificate or book entry, conditioning sales of such Shares upon compliance with applicable federal and state securities laws and regulations.

**15. Potential Clawback.** This Award and any compensation associated therewith may be made subject to forfeiture, recovery by the Company or other action pursuant to any compensation recovery policy adopted by the Board or the Committee at any time, including in response to the requirements of Section 10D of the Exchange Act and any implementing rules and regulations thereunder, or as otherwise required by law. This Agreement may be unilaterally amended by the Committee at any time to comply with any such compensation recovery policy.

**16. Amendment and Waiver.** Except as provided in this Agreement or in the Plan, this Agreement may be amended, waived, modified, or canceled only by a written instrument executed by the parties or, in the case of a waiver, by the party waiving compliance.

**17. Acknowledgment of Receipt of Copy.** By execution hereof, the Employee acknowledges having received a copy of the prospectus related to the Plan and instructions on how to access a copy of the Plan.

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IN WITNESS WHEREOF, the Employee and the Company have executed this Agreement as of the date of issuance specified at the beginning of this Agreement.

EMPLOYEE

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Printed name: \_\_\_\_\_

PIPER JAFFRAY COMPANIES

By \_\_\_\_\_

Its \_\_\_\_\_

**SIXTH AMENDMENT TO LOAN AGREEMENT (BROKER-DEALER VRDN FACILITY)**

THIS SIXTH AMENDMENT TO LOAN AGREEMENT (BROKER-DEALER VRDN FACILITY) (this "Amendment") made and entered into as of April 30, 2012, by and between: **PIPER JAFFRAY & CO.**, a Delaware corporation ("Borrower"), and **U.S. BANK NATIONAL ASSOCIATION**, a national banking association ("Lender"); has reference to the following facts and circumstances (the "Preambles"):

A. Borrower and Lender entered into the Loan Agreement (Broker-Dealer VRDN Facility) dated as of September 30, 2008 (as amended, the "Agreement"; all capitalized terms used and not otherwise defined in this Amendment shall have the respective meanings ascribed to them in the Agreement as amended by this Amendment).

B. The Agreement was amended previously, as described in the Amendment to Loan Agreement (Broker-Dealer VRDN Facility) dated as of November 3, 2008, the Second Amendment to Loan Agreement (Broker-Dealer VRDN Facility) dated as of September 25, 2009, the Third Amendment to Loan Agreement (Broker-Dealer VRDN Facility) dated as of September 30, 2010, the Fourth Amendment to Loan Agreement (Broker-Dealer VRDN Facility) dated as of December 29, 2010, and the Fifth Amendment to Loan Agreement (Broker-Dealer VRDN Facility) dated as of December 30, 2011; and Borrower and Lender desire to further amend the Agreement in the manner hereinafter set forth.

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Borrower and Lender hereby agree as follows:

1. Preambles. The Preambles are true and correct, and, with the defined terms set forth herein, are incorporated herein by this reference.
2. Amendment to Agreement. Section 10 of the Agreement is deleted and replaced with the following:
  10. Minimum Regulatory Capital. Borrower shall at all times have Regulatory Capital of at least \$130,000,000 and shall have fifteen (15) days from the date of receipt of any FOCUS Report which indicates that there is a violation of this covenant to cure such violation; provided however no cure period shall exist if any such violation is the direct result of a decrease in total ownership equity (as reflected in Part II, line 30 of any such FOCUS Report); and provided further, that Borrower shall not be required to maintain said minimum Regulatory Capital requirement on any day if and to the extent Borrower's securities underwriting commitments cause Borrower to have Regulatory Capital of less than said minimum Regulatory Capital requirement on or as of such day, so long as the total number of such days when Regulatory Capital is less than said minimum Regulatory Capital requirement does not exceed twenty (20) cumulative days in any single fiscal year of Borrower.
3. References. All references in the Note, the Collateral Pledge Agreement, and the other Credit Documents to "the Loan Agreement (Broker-Dealer VRDN Facility)", and any other references of similar import shall henceforth mean the Agreement as amended by this Amendment.
4. Full Force and Effect. Except to the extent specifically amended by this Amendment, all of the terms, provisions, conditions, covenants, representations and warranties contained in the Agreement shall be and remain in full force and effect and the same are hereby ratified and confirmed.
5. Continuing Security. The Agreement, as hereby amended, and the Note, are, and shall continue to be, secured by the Collateral Pledge Agreement.
6. Successors and Assigns. This Amendment shall be binding upon and inure to the benefit of Borrower and Lender and their respective successors and assigns, except that Borrower may not assign, transfer or delegate any of its rights or obligations under the Agreement as amended by this Amendment.
7. Representations and Warranties. Borrower hereby represents and warrants to Lender that:
  - (a) the execution, delivery and performance by Borrower of this Amendment are within the corporate powers of Borrower, have been duly authorized by all necessary corporate action and require no action by or in respect of, consent of or filing or recording with, any governmental or regulatory body, instrumentality, authority, agency or official or any other person or entity;

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(b) the execution, delivery and performance by Borrower of this Amendment do not conflict with, or result in a breach of the terms, conditions or provisions of, or constitute a default under or result in any violation of, the terms of the Certificate or Articles of Incorporation or By-Laws of Borrower, any applicable law, rule, regulation, order, writ, judgment or decree of any court or governmental or regulatory body, instrumentality authority, agency or official or any agreement, document or instrument to which Borrower is a party or by which Borrower or any of its property or assets is bound or to which Borrower or any of its property is subject;

(c) this Amendment has been duly executed and delivered by Borrower and constitutes the legal, valid and binding obligation of Borrower enforceable against Borrower in accordance with its terms, except as such enforceability may be limited by (i) applicable bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally and (ii) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law);

(d) all of the representations and warranties made by Borrower in the Agreement, the Note, the Collateral Agreement, and the other Credit Documents are true and correct in all material respects on and as of the date of this Amendment as if made on and as of the date of this Amendment; and

(e) as of the date of this Amendment, Borrower is in compliance with all provisions of the Agreement, the Note, the Collateral Agreement, and the other Credit Documents.

8. Inconsistency. In the event of any inconsistency or conflict between this Amendment and the Agreement, the terms, provisions and conditions contained in this Amendment shall govern and control.

9. Conditions. Notwithstanding any provision contained in this Amendment to the contrary, this Amendment shall not be effective unless and until Lender shall have received:

(a) this Amendment, duly executed by Borrower;

(b) a Certificate of Secretary (with Resolutions), certified by the Secretary of Borrower;

(c) a certificate of good standing for Borrower issued by the Delaware Secretary of State (or other evidence of good standing acceptable to Lender); and

(d) such other documents and information as reasonably required by Lender.

IN WITNESS WHEREOF, Borrower and Lender have executed this Amendment as of the day and year first above written.

**(SIGNATURES ON FOLLOWING PAGE)**



## CERTIFICATIONS

I, Andrew S. Duff, certify that:

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

Date: August 2, 2012

/s/ Andrew S. Duff

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Andrew S. Duff  
Chairman and Chief Executive Officer

## CERTIFICATIONS

I, Debbra L. Schoneman, certify that:

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

Date: August 2, 2012

/s/ Debbra L. Schoneman

Debbra L. Schoneman  
Chief Financial Officer

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

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

Dated: August 2, 2012

/s/ Andrew S. Duff

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Andrew S. Duff  
Chairman and Chief Executive Officer

/s/ Debra L. Schoneman

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Debra L. Schoneman  
Chief Financial Officer