PIPER JAFFRAY COMPANIES
Form 10-K
February 28, 2011

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

Form 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2010

Commission File No. 001-31720

PIPER JAFFRAY COMPANIES
(Exact Name of Registrant as specified in its Charter)

DELAWARE *(State or Other Jurisdiction of Incorporation or Organization)*	**30-0168701** *(IRS Employer Identification No.)*
800 Nicollet Mall, Suite 800 **Minneapolis, Minnesota** *(Address of Principal Executive Offices)*	**55402** *(Zip Code)*

(612) 303-6000

(Registrant s Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock, par value $0.01 per share	The New York Stock Exchange
Preferred Share Purchase Rights	The New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No þ

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past

90 days. Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

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

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

The aggregate market value of the 18,599,453 shares of the Registrant s Common Stock, par value $0.01 per share, held by non-affiliates based upon the last sale price, as reported on the New York Stock Exchange, of the Common Stock on June 30, 2010 was approximately $599 million.

As of February 18, 2011, the Registrant had 19,389,791 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Annual Report on Form 10-K incorporates by reference information (to the extent specific sections are referred to herein) from the Registrant s Proxy Statement for its 2011 Annual Meeting of Shareholders to be held on May 4, 2011.

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PART I

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-K contains forward-looking statements. 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 this Form 10-K. 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 Risk Factors in Item 1A, as well as those factors discussed under External Factors Impacting Our Business included in Management s Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-K and in our subsequent reports filed with the Securities and Exchange Commission (SEC). Our SEC reports are available at our Web site at www.piperjaffray.com and at the SEC s Web site at www.sec.gov. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update them in light of new information or future events.

ITEM 1. *BUSINESS.*

Overview

Piper Jaffray Companies is a leading, international investment bank and institutional securities firm, serving the needs of corporations, private equity groups, public entities, nonprofit clients and institutional investors. Founded in 1895, Piper Jaffray provides a broad set of products and services, including equity and debt capital markets products; public finance services; financial advisory services; equity and fixed income institutional brokerage; equity and fixed income research; and asset management services. Our headquarters are located in Minneapolis, Minnesota and we have offices across the United States and international locations in Hong Kong, Shanghai and London. We market our investment banking and institutional securities business under a single name-Piper Jaffray-which gives us a consistent brand across this business. Our asset management business is marketed under two names: ARI, which is derived from our subsidiary Advisory Research, Inc., which we acquired in March 2010, and FAMCO, which is derived from our subsidiary, Fiduciary Asset Management, Inc.

Prior to 1998, Piper Jaffray was an independent public company. U.S. Bancorp acquired the Piper Jaffray business in 1998 and operated it through various subsidiaries and divisions. At the end of 2003, U.S. Bancorp facilitated a tax-free distribution of our common stock to all U.S. Bancorp shareholders, causing Piper Jaffray to become an independent public company again.

Our continuing operations consist principally of four components:

> *Investment Banking* We raise capital through equity financings and provide advisory services, primarily relating to mergers and acquisitions, for our corporate clients. We operate in seven focus industries: business services, clean technology and renewables, consumer, financial institutions, healthcare, industrial growth, and media, telecommunications and technology, primarily focusing on middle-market clients. For our government and non-profit clients, we underwrite debt issuances and provide financial advisory and interest rate risk management services. Our public finance investment banking capabilities focus on state and local governments, and the healthcare, higher education, housing, hospitality, transportation and commercial real estate industries.

Equity and Fixed Income Institutional Brokerage We offer both equity and fixed income advisory and trade execution services for institutional investors, public and private corporations, public entities and non-profit clients. Integral to our capital markets efforts, we have equity sales and trading relationships with institutional investors in the United States, Asia and Europe that invest in our focus industries. Our fixed income sales and trading professionals have expertise in municipal, corporate, mortgage, agency and structured product securities and cover a range of institutional investors. In addition, we engage in proprietary trading in certain products where we have expertise.

Asset Management Our asset management business provides services to separately managed accounts, partnerships, and open and closed-end mutual funds. We offer an array of investment products including small and mid-cap value equity, master limited partnerships (MLP) focused on the energy industry, and fixed income.

In 2010, we significantly expanded our asset management business through the acquisition of Advisory Research, Inc. (ARI), a Chicago-based asset management firm with approximately $6.4 billion of assets under management, focused primarily on equity securities.

Other Income Other income includes revenue from merchant banking activities, gains and losses from investments in private equity and venture capital funds as well as other firm investments, and income associated with the forfeiture of stock-based compensation.

On August 11, 2006, we completed the sale of our Private Client Services branch network and certain related assets to UBS Financial Services Inc., a subsidiary of UBS AG (UBS), thereby exiting the Private Client Services (PCS) business. PCS results of operations and related restructuring costs are included within discontinued operations.

Our principal executive offices are located at 800 Nicollet Mall, Suite 800, Minneapolis, Minnesota 55402, and our general telephone number is (612) 303-6000. We maintain an Internet Web site at http://www.piperjaffray.com. The information contained on and connected to our Web site is not incorporated into this report. We make available free of charge on or through our Web site our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and all other reports we file with the SEC, as soon as reasonably practicable after we electronically file these reports with, or furnish them to, the SEC. Piper Jaffray, the Company, registrant, we, us our refer to Piper Jaffray Companies and our subsidiaries. The Piper Jaffray logo and the other trademarks, tradenames and service marks of Piper Jaffray mentioned in this report, including Piper Jaffray®, are the property of Piper Jaffray.

Financial Information about Geographic Areas

We operate predominantly in the United States. We also provide investment banking, research, and sales and trading services to selected companies in international jurisdictions in Asia and Europe. We have offices in Hong Kong and Shanghai that operate under the name Piper Jaffray Asia. Piper Jaffray Ltd. is our subsidiary domiciled in London, England. Net revenues derived from international operations were $63.9 million, $41.0 million, and $42.3 million for the years ended December 31, 2010, 2009, and 2008, respectively. Long-lived assets attributable to foreign operations were $13.9 million and $12.9 million at December 31, 2010 and 2009, respectively.

Competition

Our business is subject to intense competition driven by large Wall Street and international firms operating independently or as part of a large commercial banking institution. We also compete with regional broker dealers, boutique and niche-specialty firms, and alternative trading systems that effect securities transactions through various electronic media. Competition is based on a variety of factors, including price, quality of advice and service, reputation, product selection, transaction execution, financial resources and investment performance. Many of our large competitors have greater financial resources than we have and may have more flexibility to offer a broader set of products and services than we can.

In addition, there is significant competition within the securities industry for obtaining and retaining the services of qualified employees. Our business is a human capital business and the performance of our business is dependent upon the skills, expertise and performance of our employees. Therefore, our ability to compete effectively is dependent upon attracting and retaining qualified individuals who are motivated to serve the best interests of our clients, thereby serving the best interests of our company. Attracting and retaining employees depends, among other things, on our company s culture, management, work environment, geographic locations and compensation.

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Seasonality

Our equities trading business typically experiences a mild slowdown during the late summer months.

Employees

As of February 18, 2011, we had approximately 1,053 employees, of whom approximately 589 were registered with the Financial Industry Regulatory Authority (FINRA).

Regulation

As a participant in the financial services industry, our business is regulated by U.S. federal and state regulatory agencies, self-regulatory organizations (SROs) and securities exchanges, and by foreign governmental agencies, financial regulatory bodies and securities exchanges. We are subject to complex and extensive regulation of most aspects of our business, including the manner in which securities transactions are effected, net capital requirements, recordkeeping and reporting procedures, relationships and conflicts with customers, the handling of cash and margin accounts, conduct, experience and training requirements for certain employees, and the manner in which we prevent and detect money-laundering activities. The regulatory framework of the financial services industry is designed primarily to safeguard the integrity of the capital markets and to protect customers, not creditors or shareholders.

The laws, rules and regulations comprising this regulatory framework can (and do) change frequently, as can the interpretation and enforcement of existing laws, rules and regulations. Recent conditions in the global financial markets and economy caused legislators and regulators to increase their focus on the financial services industry, which resulted in the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank). Dodd-Frank significantly restructures and intensifies regulation in the financial services industry, with provisions that include, among other things, the creation of a new systemic risk oversight body, a limitation on proprietary trading and investment by certain bank holding companies, expansion of the authority of existing regulators, increased regulation of and restrictions on OTC derivatives markets and transactions, broadening of the reporting and regulation of executive compensation, and expansion of the standards for market participants in dealing with clients and customers. Also, conditions in the global financial markets have caused regulatory agencies to increase their examination, enforcement and rule-making activity, which we expect to continue in the coming years. Both Dodd-Frank and the intensified regulatory environment will likely alter certain business practices and change the competitive landscape of the financial services industry, which may have an adverse effect on our business, financial condition and results of operations.

Our operating subsidiaries include broker dealer and related securities entities organized in the United States, the United Kingdom and the Hong Kong Special Administrative Region of the People s Republic of China (PRC). Each of these entities is registered or licensed with the applicable local securities regulator and is a member of or participant in one or more local securities exchanges and is subject to all of the applicable rules and regulations promulgated by those authorities. We also maintain a representative office in the PRC, and this office is registered with the PRC securities regulator and subject to applicable rules and regulations of the PRC.

Specifically, our U.S. broker dealer subsidiary (Piper Jaffray & Co.) is registered as a securities broker dealer with the SEC and is a member of various SROs and securities exchanges. In July of 2007, the National Association of Securities Dealers and the member regulation, enforcement and arbitration functions of the New York Stock Exchange (NYSE) consolidated to form FINRA, which now serves as the primary SRO of Piper Jaffray & Co., although the NYSE continues to have oversight over NYSE-related market activities. FINRA regulates many aspects of our U.S. broker dealer business, including registration, education and conduct of our employees, examinations, rulemaking, enforcement of these rules and the federal securities laws, trade reporting and the administration of dispute resolution between investors and registered firms. We have agreed to abide by the rules of FINRA (as well as those of the NYSE and other SROs), and FINRA has the power to expel, fine and otherwise discipline Piper Jaffray & Co. and its officers, directors and employees. Among the rules that apply to Piper Jaffray & Co. are the uniform net capital rule of the SEC (Rule 15c3-1) and the net capital rule of FINRA. Both rules set a minimum level of net capital a broker dealer must maintain and also require that a portion of the broker dealer s assets be relatively liquid. Under the FINRA rule, FINRA may prohibit a member firm from expanding its business or paying cash dividends if resulting net capital falls below FINRA requirements. In addition, Piper Jaffray & Co. is subject to certain notification requirements related to withdrawals of excess net capital. As a result of these rules, our ability to make withdrawals of capital from Piper Jaffray & Co. may be limited. In addition, Piper Jaffray & Co. is licensed as a broker dealer in each of the 50 states, requiring us to comply with applicable laws, rules and regulations of each state. Any state may revoke a license to conduct a securities business and fine or otherwise discipline broker dealers and their officers, directors and employees. Piper Jaffray & Co. also has established a representative office in Shanghai, PRC, which is registered with the China Securities Regulatory Commission (CSRC) and is subject to CSRC administrative measures applicable to foreign securities organizations operating representative offices in China. These administrative measures relate to, among other things, business conduct.

We operate three entities licensed and regulated by the Hong Kong Securities and Futures Commission (SFC): Piper Jaffray Asia Limited, Piper Jaffray Asia Securities Limited and Piper Jaffray Asia Futures Limited. Each of these entities is registered under the laws of Hong Kong and subject to the Securities and Futures Ordinance and related rules regarding, among other things, capital adequacy, customer protection and business conduct.

Piper Jaffray Ltd., our U.K. subsidiary, is registered under the laws of England and Wales and is authorized and regulated by the U.K. Financial Services Authority (FSA). As a result, Piper Jaffray Ltd. is subject to regulations regarding, among other things, capital adequacy, customer protection and business conduct.

Each of the entities identified above also is subject to anti-money laundering regulations. Piper Jaffray & Co. is subject to the USA PATRIOT Act of 2001, which contains anti-money laundering and financial transparency laws and mandates the implementation of various regulations requiring us to implement standards for verifying client identification at account opening, monitoring client transactions and reporting suspicious activity. Piper Jaffray Ltd. and our Piper Jaffray Asia entities are subject to similar anti-money laundering laws and regulations promulgated in the United Kingdom and Hong Kong, respectively. We are also subject the U.S. Foreign Corrupt Practices Act (FCPA) as well as other anti-bribery laws in the jurisdictions in which we operate. These laws generally prohibit companies and their intermediaries from engaging in bribery or making other improper payments to foreign officials for the purpose of obtaining or retaining business or gaining an unfair business advantage.

Our asset management subsidiaries, ARI, Fiduciary Asset Management, Inc. (FAMCO) and Piper Jaffray Investment Management LLC are registered as investment advisers with the SEC and subject to the regulation and oversight by the SEC. These requirements relate to, among other things, fiduciary duties to clients, maintaining an effective compliance program, solicitation agreements, conflicts of interest, recordkeeping and reporting requirements, disclosure requirements, limitations on agency cross and principal transactions between advisor and advisory clients, as well as general anti-fraud prohibitions. Certain investment funds that we manage are registered investment companies under the Investment Company Act, as amended. Those funds and entities that serve as the funds investment advisors are subject to the Investment Company Act and the rules and regulations of the SEC, which regulate the relationship between a registered investment company and its investment advisor and prohibit or severely restrict principal transactions or joint transactions, among other requirements. Also, ARI and FAMCO are also authorized by the Irish Financial Services Regulatory Authority as an investment advisor in Ireland and cleared by the Luxembourg Commission de Surviellance du Secteur Financier as a manager to Luxembourg funds.

Certain of our businesses also are subject to compliance with laws and regulations of U.S. federal and state governments, non-U.S. governments, their respective agencies and/or various self-regulatory organizations or exchanges governing the privacy of client information. Any failure with respect to our practices, procedures and controls in any of these areas could subject us to regulatory consequences, including fines, and potentially other significant liabilities.

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Executive Officers

Information regarding our executive officers and their ages as of February 18, 2011, are as follows:

Name	Age	Position(s)
Andrew S. Duff	53	Chairman and Chief Executive Officer
Thomas P. Schnettler	54	President and Chief Operating Officer
James L. Chosy	47	General Counsel and Secretary
Brien M. O Brien	54	Head of Asset Management
Debbra L. Schoneman	42	Chief Financial Officer

Andrew S. Duff is our chairman and chief executive officer. Mr. Duff became chairman and chief executive officer of Piper Jaffray Companies following completion of our spin-off from U.S. Bancorp on December 31, 2003. He also has served as chairman of our broker dealer subsidiary since 2003, as chief executive officer of our broker dealer subsidiary since 2000, and as president of our broker dealer subsidiary since 1996. He has been with Piper Jaffray since 1980. Prior to the spin-off from U.S. Bancorp, Mr. Duff also was a vice chairman of U.S. Bancorp from 1999 through 2003.

Thomas P. Schnettler is our president and chief operating officer. He has been with Piper Jaffray since 1986 and has held his current position since May 2008. He previously served as vice chairman and chief financial officer, a position he held from August 2006 until May 2008. Prior to that, he served as head of our Corporate and Institutional Services business beginning in July 2005, and as head of our Equities and Investment Banking group from June 2002 until July 2005, head of our investment banking department from October 2001 to June 2002, and as co-head of this department from 2000 until October 2001. From 1988 to 2000, he served Piper Jaffray as a managing director in our investment banking department.

James L. Chosy is our general counsel and secretary. Mr. Chosy has served in these roles since joining Piper Jaffray in March 2001. From 1995 until joining Piper Jaffray, he was vice president, associate general counsel of U.S. Bancorp. He also served as assistant secretary of U.S. Bancorp from 1995 through 2000 and as secretary from 2000 until his move to Piper Jaffray.

Brien M. O Brien is our head of asset management. He has served in this role since joining Piper Jaffray in March 2010 following the closing of the transaction with ARI, an asset management firm based in Chicago, Illinois. From 1996 until joining Piper Jaffray, he was chairman and chief executive officer of ARI.

Debbra L. Schoneman is our chief financial officer. Ms. Schoneman joined Piper Jaffray in 1990 and has held her current position since May 2008. She previously served as treasurer from August 2006 until May 2008. Prior to that, she served as finance director of our Corporate and Institutional Services business from July 2002 until July 2004 when the role was expanded to include our Public Finance Services division. From 1990 until July 2002, she served in various roles in the accounting and finance departments within Piper Jaffray.

ITEM 1A. *RISK FACTORS.*

Developments in market and economic conditions have in the past adversely affected, and may in the future adversely affect, our business and profitability.

Economic and market conditions have had, and will continue to have, a direct and material impact on our results of operations and financial condition because performance in the financial services industry is heavily influenced by the overall strength of economic conditions and financial market activity. For example:

Our investment banking revenue, in the form of underwriting, placement and financial advisory fees from equity, acquisition and disposition, and public finance transactions, is directly related to the volume and value of the transactions as well as our role in these transactions. During the first half of 2010, uncertainty regarding the strength of the global economic recovery led to broad-based market declines and volatility that negatively impacted U.S. capital-raising, particularly for initial public offerings and growth sectors in which we participate. The reduction in capital-raising negatively impacted our equities investment banking revenue as fewer transactions were completed and the size of the transactions were reduced. If similar market dynamics occur in 2011, there would likely be a similar impact on our equities investment banking business as capital-raising activity declined.

Our Public Finance Services and Fixed Income Services businesses were negatively impacted in 2010 by the uncertainties and volatility related to concerns over municipal-issuer credit quality, treasury rates, and the extension of the Build America Bonds program. In 2011, state and local governments may continue to struggle with budget pressures caused by the recent recession, and concerns regarding municipal-issuer credit quality may persist. These investor concerns could potentially reduce the volume and size of public finance transactions during 2011 and negatively impact our public finance investment banking business. We also expect that the interest rate volatility experienced in 2010 may continue into 2011, which together with municipal market uncertainty and volatility may negatively impact our fixed income institutional brokerage business. Changes in interest rates (especially if the changes are rapid and severe) or uncertainty regarding the future direction of interest rates may reduce customer activity and may also negatively impact the value of our fixed income securities inventories and the effectiveness of our related hedging strategies.

A decline in the financial markets will reduce asset valuations and adversely impact our asset management business. A reduction in asset values would negatively impact this business by reducing the value of assets under management, and as a result, the revenues associated with this business. In addition, we could experience a reduction in the inflow of assets under management or an increase of outflows during times of market declines, which would adversely impact this business.

Our Equities business could be negatively impacted from declining market values and asset levels, which will reduce commission revenue. Also, if the market trends downward or remains flat, this reduced volatility will negatively impact the business as volume levels decline with volatility. A decline in institutional and trading revenue as a result of these factors would have a negative impact on our business and results of operations.

It is difficult to predict the market conditions for 2011, which are dependent in large part upon the pace and consistency of the global economic recovery now underway. Our operating size and the cyclical nature of the economy and this industry leads to volatility in our financial results, including our operating margins, compensation ratios and revenue and expense levels. Our financial performance may be limited by the fixed nature of certain expenses, the impact from unanticipated losses or expenses during the year, and the inability to scale back costs in a timeframe to match decreases in revenue-related changes in market and economic conditions. As a result, our financial results may vary significantly from quarter-to-quarter and year-to-year.

Developments in specific sectors of the economy have in the past adversely affected, and may in the future adversely affect, our business and profitability.

Our results for a particular period may be disproportionately impacted by declines in specific sectors of the economy due to our business mix and focus areas. For example:

Our Fixed Income Services business derives its revenue primarily from sales and trading activity in the municipal market and to a lesser extent from corporate credits and structured products within the taxable market. During 2010, we experienced a less favorable municipal trading environment due to concerns over credit quality for municipal issuers, volatility in interest rates, in particular treasury rates, and uncertainties surrounding the extension of the Build America Bonds program. Challenges in the municipal trading environment have continued into 2011 as concerns over municipal-issuer credit quality persist, and these market conditions may negatively impact our results of operations in this area, potentially materially. As an example, our proprietary trading activities in the municipal market have generated significant revenue in both 2010 and 2009, and an inability to predict municipal market conditions or take advantage of the existing trading environment would negatively impact this business and our results of operations generally. Also, our operating results for this business may not correlate with the results of other firms or the fixed income market generally because we do not participate in significant segments of the fixed income markets (e.g., credit default swaps, interest rate products and currencies and commodities).

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Similar to our Fixed Income Services business, our Public Finance Services business depends heavily upon conditions in the municipal market. Our ability to effect investment banking transactions in the state and local government sectors has been, and will continue to be, challenged by concerns of municipal-issuer credit quality. In addition, our public finance business focuses on investment banking activity in sectors that include higher education, housing, healthcare, and hospitality sectors, with an emphasis on transactions with a par value of $500 million or less. Challenging market conditions for these sectors that are disproportionately worse than those impacting the broader economy or municipal markets generally may adversely impact our business. As an example, we have historically participated in the market for low- or non-rated public finance investment banking transactions, and this market continues to experience a slow recovery following the credit crisis of 2008.

The global recession had a significant negative impact on economic and market conditions in Europe and Asia, which reduced our revenue from international operations. With respect to Europe, the equity capital raising environment for European-based middle market companies remained depressed throughout 2010, particularly in biotechnology, our primary specialty focus. As a result, in the fourth quarter of 2010, we exited the origination and distribution of European securities and shifted the focus of our European operations to the distribution of U.S. and Asia securities to European institutional investors and merger and acquisition advisory services. As part of this strategy, we will invest further in our Asia operations, focusing in particular on activities in China, and this investment in the Asian market will expose us to a greater degree to the economic and market conditions in this geographic region as well as other unique risks associated with Asia-based operations.

Volatility or uncertainty in the business environment for clean technology and renewables, business services, consumer, financial institutions, healthcare, industrial growth, and media, telecommunications and technology, including but not limited to challenging market conditions for these sectors that are disproportionately worse than those impacting the economy and markets generally or downturns in these sectors that are independent of general economic and market conditions, may adversely affect our business. Further, we may not participate or may participate to a lesser degree than other firms in sectors that experience significant activity, such as depository financial institutions, energy and mining, and industrials, and our operating results many not correlate with the results of other firms who participate in these sectors.

We may not be able to compete successfully with other companies in the financial services industry who often have significantly greater resources than we do.

The financial services industry remains extremely competitive, and our revenues and profitability will suffer if we are unable to compete effectively. An inability to effectively compete will also have a negative impact on our ability to achieve our five-year strategic growth priorities, which include significant revenue growth for our corporate advisory and public finance businesses, expansion of our Asia-based business and growth in our asset management business. We compete generally on the basis of such factors as quality of advice and service, reputation, price, product selection, transaction execution and financial resources. Pricing and other competitive pressures in investment banking, including the trends toward multiple book runners, co-managers and multiple financial advisors handling transactions, have continued and could adversely affect our revenues.

We remain at a competitive disadvantage given our relatively small size compared to some of our competitors. Large financial services firms have a larger capital base, greater access to capital and greater resources than we have, affording them greater capacity for risk and potential for innovation, an extended geographic reach and flexibility to offer a broader set of products. For example, these firms have used their resources and larger capital base to take advantage of growth in international markets and to support their investment banking business by offering credit products to corporate clients, which is a significant competitive advantage. With respect to our Fixed Income Services and Public Finance Services businesses, it is more difficult for us to diversify and differentiate our product set, and our fixed income business mix currently is concentrated in the municipal market and to a lesser extent corporate credits and structured products, potentially with less opportunity for growth than other firms who have grown their fixed income businesses by investing in, developing and offering non-traditional products (e.g., credit default swaps, interest rate products and currencies and commodities).

The business operations that we conduct outside of the United States subject us to unique risks.

To the extent we conduct business outside the United States, for example in Asia and to a lesser extent Europe, we are subject to risks including, without limitation, the risk that we will be unable to provide effective operational support to these business activities, the risk of non-compliance with foreign laws and regulations, and the general economic and political conditions in countries where we conduct business, which may differ significantly from those in the United States. In 2010, we restructured our international operations and exited origination and distribution of European securities and announced our intention to further invest in our Asia operations, particularly China. This increased focus on Asia, particularly China, will increase our exposure to these risks associated with international operations. Further, the capital markets in Asia are emerging and less developed than those of the U.S. or Europe and many Asia-based issuer companies seeking to raise capital are less mature than may be the case in the U.S. or Europe and may have a higher risk profile, potentially exposing us to greater underwriting and other risk in our global equity capital markets business.

In addition, we may experience currency risk as foreign exchange rates fluctuate in a manner that negatively impacts the value of non-U.S. dollar assets, revenues and expenses. If we are unable to manage these risks effectively, our reputation and results of operations could be harmed.

Our businesses, profitability and liquidity may be adversely affected by deterioration in the credit quality of, or defaults by, third parties who owe us money, securities or other assets.

The amount and duration of our credit exposures has been volatile over the past several years. This exposes us to the increased risk that third parties who owe us money, securities or other assets will not perform their obligations. These parties may default on their obligations to us due to bankruptcy, lack of liquidity, operational failure or other reasons. Deterioration in the credit quality of third parties whose securities or obligations we hold could result in losses and adversely affect our ability to rehypothecate or otherwise use those securities or obligations for liquidity purposes. A significant downgrade in the credit ratings of our counterparties could also have a negative impact on our results. Default rates, downgrades and disputes with counterparties as to the valuation of collateral tend to increase in times of market stress and illiquidity. Although we regularly review credit exposures to specific clients and counterparties and to specific industries that we believe may present credit concerns, default risk may arise from events or circumstances that are difficult to detect or foresee. Also, concerns about, or a default by, one institution generally leads to losses, significant liquidity problems, or defaults by other institutions, which in turn adversely affects our business.

Particular activities or products within our business have exposed us to increasing credit risk, including inventory positions, interest rate swap contracts with customer credit exposure, merchant banking debt investments, counterparty risk with two major financial institutions related to customer interest rate swap contracts without customer credit exposure, investment banking and advisory fee receivables, customer margin accounts, and trading counterparty activities related to settlement and similar activities. With respect to interest rate swap contracts with customer exposure, we have credit exposure with six counterparties totaling $22.0 million at December 31, 2010 as part of our matched-book interest rate swap program. Unfavorable changes in interest rates in 2011 could increase our exposure. For example, a decrease in interest rates would increase the amount that would be payable to us in the event of a termination of the contract, and result in a corresponding increase in the amount that we would owe to our hedging counterparty. If our counterparty is unable to make its payment to us, we would still be obligated to pay our hedging counterparty, resulting in credit losses. With respect to merchant banking investments, we have two debt investments totaling $11.7 million as of December 31, 2010. Non-performance by our counterparties, clients and others, including with respect to our inventory positions, interest rate swap contracts with customer credit exposures and our merchant banking debt investments could result in losses, potentially material, and thus have a significant adverse effect on our business and results of operations.

Our stock price may fluctuate as a result of several factors, including but not limited to, changes in our revenues and operating results.

We have experienced, and expect to experience in the future, fluctuations in the market price of our common stock due to factors that relate to the nature of our business, including but not limited to changes in our revenues and operating results. Our business, by its nature, does not produce steady and predictable earnings on a quarterly basis, which causes fluctuations in our stock price that may be significant. Other factors that have affected, and may further affect, our stock price include changes in or news related to economic or market events or conditions, changes in market conditions in the financial services industry, including developments in regulation affecting our business, failure to meet the expectations of market analysts, changes in recommendations or outlooks by market analysts, and aggressive short selling similar to that experienced in the financial industry in 2008.

The volume of anticipated investment banking transactions may differ from actual results.

The completion of anticipated investment banking transactions in our pipeline is uncertain and beyond our control, and our investment banking revenue is typically earned only upon the successful completion of a transaction. In most cases, we receive little or no payment for investment banking engagements that do not result in the successful completion of a transaction. For example, a client s acquisition transaction may be delayed or terminated because of a failure to agree upon final terms with the counterparty, failure to obtain necessary regulatory consents or board or stockholder approvals, failure to secure necessary financing, adverse market conditions or unexpected financial or other problems in the client s or counterparty s business. If parties fail to complete a transaction on which we are advising or an offering in which we are participating, we earn little or no revenue from the transaction and may have incurred significant expenses (for example, travel and legal expenses) associated with the transaction. Accordingly, our business is highly dependent on market conditions as well as the decisions and actions of our clients and interested third parties, and the number of engagements we have at any given time (and any characterization or description of our deal pipelines) is subject to change and may not necessarily result in future revenues.

An inability to access capital readily or on terms favorable to us could impair our ability to fund operations and could jeopardize our financial condition and results of operations.

Liquidity, or ready access to funds, is essential to our business. Several large financial institutions failed or merged with others during the credit crisis following significant declines in asset values in securities held by these institutions. To fund our business, we maintain a cash position and rely on bank financing as well as other funding sources such as the repurchase markets. The majority of our bank financing consists of uncommitted credit lines, which could become unavailable to us on relatively short notice. Our committed facilities include a $250 million committed credit facility that was renewed for the second consecutive year as well as a new three-year credit facility entered into at the end of 2010. The three-year facility refinanced $120 million of unsecured variable rate senior notes related to the acquisition of ARI, and consists of term loans in the aggregate amount of $100 million and a $50 million revolving credit facility that the Company may draw upon at its discretion. In addition to our committed credit facility and in order to diversify our short-term funding needs, we also continue to maintain our $300 million commercial paper program.

Our access to funding sources, particularly uncommitted funding sources, could be hindered by many factors, and many of these factors we cannot control, such as economic downturns, the disruption of financial markets, the failure or consolidation of other financial institutions, negative news about the financial industry generally or us specifically. We could experience disruptions with our credit facilities in the future, including the loss of liquidity sources and/or increased borrowing costs, if lenders or investors develop a negative perception of our short- or long-term financial prospects, which could result from decreased business activity. Our liquidity also could be impacted by the activities resulting in concentration of risk, including proprietary activities from long-term investments and/or investments in specific markets or products without liquidity. Our access to funds may be impaired if regulatory authorities take significant action against us, or if we discover that one of our employees has engaged in serious unauthorized or illegal activity.

In the future, we may need to incur debt or issue equity in order to fund our working capital requirements, as well as to execute our growth initiatives that may include acquisitions and other investments. For example, we issued

$120 million of unsecured variable rate senior notes to help fund the acquisition of ARI, which has been refinanced with a new three-year credit facility as described above. Similarly, our access to funding sources may be contingent upon terms and conditions that may limit or restrict our business activities and growth initiatives. For example, the three-year credit facility includes covenants that, among other things, limit our leverage ratio, require

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maintenance of certain levels of cash and regulatory net capital, require our asset management segment to achieve minimum earnings before interest, taxes, depreciation and amortization, and impose certain limitations on our ability to make acquisitions and make payments on our capital stock.

Lastly, we currently do not have a credit rating, which could adversely affect our liquidity and competitive position by increasing our borrowing costs and limiting access to sources of liquidity that require a credit rating as a condition to providing funds.

Concentration of risk increases the potential for significant losses.

Concentration of risk increases the potential for significant losses in our sales and trading, proprietary trading, merchant banking investments and underwriting businesses. We have committed capital to these businesses, and we may take substantial positions in particular types of securities and/or issuers. This concentration of risk may cause us to suffer losses even when economic and market conditions are generally favorable for our competitors. Further, disruptions in the credit markets can make it difficult to hedge exposures effectively and economically. We also experience concentration of risk in our role as remarketing agent and broker dealer for certain types of securities, including in our role as remarketing agent for approximately $5.6 billion of variable rate demand notes. In an effort to facilitate liquidity, we may (but are not required to) increase our inventory positions in securities, exposing ourselves to greater concentration of risk and potential financial losses from the reduction in value of illiquid positions. Further, inventory positions that benefit from a liquidity provider, such as certain types of variable rate demand notes, may be adversely affected by an event that results in termination of the liquidity provider s obligation, such as an insolvency or ratings downgrade of the monoline insurer.

In recent years, financial services firms have also moved toward larger and more frequent commitments of capital, which has increased the potential for significant losses in our sales and trading and underwriting activities, where we have committed capital and taken substantial positions in particular types of securities and/or issuers. Our results of operations for a given period may be affected by the nature and scope of these activities and such activities will subject us to market fluctuations and volatility that may adversely affect the value of our positions, which could result in significant losses and reduce our revenues and profits.

An inability to readily divest or transfer trading positions may result in financial losses to our business.

Timely divestiture or transfer of our trading positions, including equity, fixed income and other securities positions, can be impaired by decreased trading volume, increased price volatility, rapid changes in interest rates, concentrated trading positions, limitations on the ability to transfer positions in highly specialized or structured transactions and changes in industry and government regulations. This is true for both customer transactions that we facilitate as agent as well as proprietary trading positions that we maintain. While we hold a security, we are vulnerable to price and value fluctuations and may experience financial losses to the extent the value of the security decreases and we are unable to timely divest, hedge or transfer our trading position in that security. The value may decline as a result of many factors, including issuer-specific, market or geopolitical events. In addition, in times of market uncertainty, the inability to transfer inventory positions may have an impact on our liquidity as funding sources generally decline and we are unable to pledge the underlying security as collateral. Our liquidity may also be impacted if we choose to facilitate liquidity for specific products and voluntarily increase our inventory positions in order to do so, exposing ourselves to greater market risk and potential financial losses from the reduction in value of illiquid positions.

In addition, securities firms increasingly are committing to purchase large blocks of stock from issuers or significant shareholders, and block trades increasingly are being effected without an opportunity for us to pre-market the transaction, which increases the risk that we may be unable to resell the purchased securities at favorable prices. In addition, reliance on revenues from hedge funds and hedge fund advisors, which are less regulated than many investment company and advisor clients, may expose us to greater risk of financial loss from unsettled trades than is the case with other types of institutional investors. Concentration of risk may result in losses to us even when economic and market conditions are generally favorable for others in our industry.

The financial services industry and the markets in which we operate are subject to systemic risk that could adversely affect our business and results.

Participants in the financial services industry and markets increasingly are closely interrelated as a result of credit, trading, clearing, technology and other relationships between them. A significant adverse development with one participant (such as a bankruptcy or default) may spread to others and lead to significant concentrated or market-wide problems (such as defaults, liquidity problems or losses) for other participants, including us. This systemic risk was evident during 2008 following the demise of Bear Stearns and Lehman Brothers, and the resulting events (sometimes described as contagion) had a negative impact on the remaining industry participants, including us. Further, the control and risk management infrastructure of the markets in which we operate often is outpaced by financial innovation and growth in new types of securities, transactions and markets. Systemic risk is inherently difficult to assess and quantify, and its form and magnitude can remain unknown for significant periods of time.

The use of estimates and valuations in measuring fair value involve significant estimation and judgment by management.

We make various estimates that affect reported amounts and disclosures. Broadly, those estimates are used in measuring fair value of certain financial instruments, accounting for goodwill and intangible assets, establishing provisions for potential losses that may arise from litigation, regulatory proceedings and tax examinations, and valuing equity-based compensation awards. Estimates are based on available information and judgment. Therefore, actual results could differ from our estimates and that difference could have a material effect on our consolidated financial statements. An unsustainable economic recovery leading to a renewed deterioration in economic or market conditions could result in impairment charges, similar to those experienced in 2008, which could materially adversely affect our results of operations.

Certain financial instruments, including trading securities owned, trading securities owned and pledged as collateral, and trading securities sold but not yet purchased, are recorded at fair value, and unrealized gains and losses related to these financial instruments are reflected on our consolidated statements of operations. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. These valuation techniques involve management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments complexity. Difficult market environments, such as those experienced in 2008, may cause transferable instruments to become substantially more illiquid and difficult to value, increasing the use of valuation models. We also expect valuation to be increasingly influenced by external market and other factors, including implementation of SEC and FASB guidance on fair value accounting, issuer specific credit deteriorations and deferral and default rates, rating agency actions, and the prices at which observable market transactions occur. Our future results of operations and financial condition may be adversely affected by the valuation adjustments that we apply to these financial instruments.

Risk management processes may not fully mitigate exposure to the various risks that we face, including market risk, liquidity risk and credit risk.

We refine our risk management techniques, strategies and assessment methods on an ongoing basis. However, risk management techniques and strategies, both ours and those available to the market generally, may not be fully effective in mitigating our risk exposure in all economic market environments or against all types of risk. For example, we might fail to identify or anticipate particular risks that our systems are capable of identifying, or the systems that we use, and that are used within the industry generally, may not be capable of identifying certain risks. Some of our strategies for managing risk are based upon our use of observed historical market behavior. We apply statistical and other tools to these observations to quantify our risk exposure. Any failures in our risk management techniques and strategies to accurately quantify our risk exposure could limit our ability to manage risks. In addition, any risk management failures could cause our losses to be significantly greater than the historical measures indicate. Further, our quantified modeling does not take all risks into account. Our more qualitative approach to managing those risks could prove insufficient, exposing us to material unanticipated losses.

Financing and advisory services engagements are singular in nature and do not generally provide for subsequent engagements.

Even though we work to represent our clients at every stage of their lifecycle, we are typically retained on a short-term, engagement-by-engagement basis in connection with specific capital markets or mergers and acquisitions transactions. In particular, our revenues related to acquisition and disposition transactions tend to be highly volatile and unpredictable or lumpy from quarter to quarter due to the one-time nature of the transaction and the size of the fee. As a result, high activity levels in any period are not necessarily indicative of continued high levels of activity in any subsequent period. If we are unable to generate a substantial number of new engagements and generate fees from the successful completion of those transactions, our business and results of operations will likely be adversely affected.

Our ability to attract, develop and retain highly skilled and productive employees is critical to the success of our business.

Historically, the market for qualified employees within the financial services industry has been marked by intense competition, and the performance of our business may suffer to the extent we are unable to attract and retain employees effectively, particularly given the relatively small size of our company and our employee base compared to some of our competitors and the geographic locations in which we operate. The primary sources of revenue in each of our business lines are commissions and fees earned on advisory and underwriting transactions and customer accounts managed by our employees, who have historically been recruited by other firms and in certain cases are able to take their client relationships with them when they change firms. Some specialized areas of our business are operated by a relatively small number of employees, the loss of any of whom could jeopardize the continuation of that business following the employee s departure.

Further, recruiting and retention success often depends on the ability to deliver competitive compensation, and we may be at a disadvantage to some competitors given our size and financial resources. Our inability or unwillingness to meet compensation needs or demands may result in the loss of some of our professionals or the inability to recruit additional professionals at compensation levels that are within our target range for compensation and benefits expense. Our ability to retain and recruit also may be hindered if we limit our aggregate annual compensation and benefits expense as a percentage of annual net revenues.

Our underwriting and market-making activities may place our capital at risk.

We may incur losses and be subject to reputational harm to the extent that, for any reason, we are unable to sell securities we purchased as an underwriter at the anticipated price levels. As an underwriter, we also are subject to heightened standards regarding liability for material misstatements or omissions in prospectuses and other offering documents relating to offerings we underwrite. Further, the right to indemnification in favor of the underwriter for these offerings may not be available or sufficient to cover potential liability from any material misstatements or omissions. As discussed above, these underwriting-related risks may be greater with respect to our business in Asia because the Asian capital markets are emerging and generally less developed than those of the U.S. or Europe and many Asia-based issuer companies seeking to raise capital are less mature than may be the case in the U.S. or Europe and may have a higher risk profile. As a market maker, we may own large positions in specific securities, and these undiversified holdings concentrate the risk of market fluctuations and may result in greater losses than would be the case if our holdings were more diversified.

Use of derivative instruments as part of our risk management techniques may not effectively hedge the risks associated with activities in certain of our businesses.

We may use futures, options, swaps or other securities to hedge inventory. For example, our fixed income business provides swaps and other interest rate hedging products to public finance clients, which we in turn hedge through a counterparty. There are risks inherent in our use of these products, including counterparty exposure and basis risk. Counterparty exposure refers to the risk that the amount of collateral in our possession on any given day may not be sufficient to fully cover the current value of the swaps if a counterparty were to suddenly default. Basis risk refers to risks associated with swaps where changes in the value of the swaps may not exactly mirror changes in

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the value of the cash flows they are hedging. It is possible that we may incur losses from our exposure to derivative and interest rate hedging products and the increased use of these products in the future. For example, if the derivative instruments that we use to hedge the risks associated with interest rate swap contracts with public finance clients where we have retained the credit risk are terminated as a result of a client credit event, we may incur losses if we make a payment to our hedging counterparty without recovering any amounts from our client.

Our business is subject to extensive regulation in the jurisdictions in which we operate, and a significant regulatory action against our company may have a material adverse financial effect or cause significant reputational harm to our company.

As a participant in the financial services industry, we are subject to complex and extensive regulation of many aspects of our business by U.S. federal and state regulatory agencies, self-regulatory organizations (including securities exchanges) and by foreign governmental agencies, regulatory bodies and securities exchanges. Specifically, our operating subsidiaries include broker dealer and related securities entities organized in the United States, the United Kingdom and the Hong Kong Special Administrative Region of the People s Republic of China (PRC). Each of these entities is registered or licensed with the applicable local securities regulator and is a member of or participant in one or more local securities exchanges and is subject to all of the applicable rules and regulations promulgated by those authorities. We maintain a representative office in the PRC, and this office is registered with the PRC securities regulator and subject to applicable rules and regulations of the PRC. In addition, our asset management subsidiaries, ARI and FAMCO, are registered as investment advisers with the SEC and subject to the regulation and oversight by the SEC.

Generally, the requirements imposed by our regulators are designed to ensure the integrity of the financial markets and to protect customers and other third parties who deal with us. These requirements are not designed to protect our shareholders. Consequently, broker dealer regulations often serve to limit our activities, through net capital, customer protection and market conduct requirements and restrictions on the businesses in which we may operate or invest. We also must comply with asset management regulations, including requirements related to fiduciary duties to clients, recordkeeping and reporting and customer disclosures. Compliance with many of these regulations entails a number of risks, particularly in areas where applicable regulations may be newer or unclear. In addition, regulatory authorities in all jurisdictions in which we conduct business may intervene in our business and we and our employees could be fined or otherwise disciplined for violations or prohibited from engaging in some of our business activities.

Over the last several years we have expanded our international operations, including through the acquisition of Asia-based Goldbond Capital Holdings Ltd. Our international businesses subject us to a unique set of regulations, including regarding capital adequacy, customer protection and business conduct, and require us to devote increasing resources to our compliance efforts and expose us to additional regulatory risk in each of these international jurisdictions.

The laws, rules and regulations comprising this regulatory framework can (and do) change frequently, as can the interpretation and enforcement of existing laws, rules and regulations. Recent conditions in the global financial markets and economy caused legislators and regulators to increase their focus on the financial services industry, which resulted in the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank). Dodd-Frank significantly restructures and intensifies regulation in the financial services industry, with provisions that include, among other things, the creation of a new systemic risk oversight body, a limitation on proprietary trading and investment by certain bank holding companies, expansion of the authority of existing regulators, increased regulation of and restrictions on OTC derivatives markets and transactions, broadening of the reporting and regulation of executive compensation, and expansion of the standards for market participants in dealing with clients and customers. Also, conditions in the global financial markets have caused regulatory agencies to increase their examination, enforcement and rule-making activity, which we expect to continue in the coming years. Both Dodd-Frank and the intensified regulatory environment will likely alter certain business practices and change the competitive landscape of the financial services industry, which may have an adverse effect on our business, financial condition and results of operations.

Our business also subjects us to the complex income tax laws of the jurisdictions in which we have business operations, and these tax laws may be subject to different interpretations by the taxpayer and the relevant governmental taxing authorities. We must make judgments and interpretations about the application of these inherently complex tax laws when determining the provision for income taxes. We are subject to contingent tax risk that could adversely affect our results of operations, to the extent that our interpretations of tax laws are disputed upon examination or audit, and are settled in amounts in excess of established reserves for such contingencies.

The effort to combat money laundering also has become a high priority in governmental policy with respect to financial institutions. The obligation of financial institutions, including ourselves, to identify their customers, watch for and report suspicious transactions, respond to requests for information by regulatory authorities and law enforcement agencies, and share information with other financial institutions, has required the implementation and maintenance of internal practices, procedures and controls which have increased, and may continue to increase, our costs. Any failure with respect to our programs in this area could subject us to serious regulatory consequences, including substantial fines, and potentially other liabilities. In addition, as we expand our international operations compliance with anti-bribery laws, including the Foreign Corrupt Practices Act, will become increasingly important. These laws generally prohibit companies and their intermediaries from engaging in bribery or making other improper payments to foreign officials for the purpose of obtaining or retaining business or gaining an unfair business advantage. While our employees and agents are required to comply with these laws, we cannot ensure that our internal control policies and procedures will always protect us from intentional, reckless or negligent acts committed by our employees or agents, which acts could subject our company to fines or other regulatory consequences.

Our exposure to legal liability is significant, and could lead to substantial damages.

We face significant legal risks in our businesses. These risks include potential liability under securities laws and regulations in connection with our investment banking and other securities transactions. The volume and amount of damages claimed in litigation, arbitrations, regulatory enforcement actions and other adversarial proceedings against financial services firms have increased in recent years. Our experience has been that adversarial proceedings against financial services firms typically increase during a market downturn. We also are subject to claims from disputes with our employees and our former employees under various circumstances. Risks associated with legal liability often are difficult to assess or quantify and their existence and magnitude can remain unknown for significant periods of time, making the amount of legal reserves related to these legal liabilities difficult to determine and subject to future revision. Legal or regulatory matters involving our directors, officers or employees in their individual capacities also may create exposure for us because we may be obligated or may choose to indemnify the affected individuals against liabilities and expenses they incur in connection with such matters to the extent permitted under applicable law. In addition, like other financial services companies, we may face the possibility of employee fraud or misconduct. The precautions we take to prevent and detect this activity may not be effective in all cases and there can be no assurance that we will be able to deter or prevent fraud or misconduct. Exposures from and expenses incurred related to any of the foregoing actions or proceedings could have a negative impact on our results of operations and financial condition. In addition, future results of operations could be adversely affected if reserves relating to these legal liabilities are required to be increased or legal proceedings are resolved in excess of established reserves.

We may make strategic acquisitions and minority investments, engage in joint ventures or divest or exit existing businesses, which could cause us to incur unforeseen expense and have disruptive effects on our business but may not yield the benefits we expect.

We expect to grow in part through corporate development activities that may include acquisitions, joint ventures and minority investment stakes. For example, we expanded our existing asset management business in March 2010 with the acquisition of ARI, a Chicago-based asset management firm. Previously, we expanded our business into Asia through the acquisition of Goldbond Capital Holdings Ltd., and into asset management through the acquisition of

FAMCO. These corporate development activities, and our future corporate development activities, are accompanied by a number of risks. Costs or difficulties relating to a transaction, including integration of products, employees, technology systems, accounting systems and management controls, may be difficult to predict accurately and be greater than expected causing our estimates to differ from actual results. We may be unable to retain key personnel after the transaction, and the transaction may impair relationships with customers and business partners. Also, our share price could decline after we announce or complete a transaction if investors view the transaction as too costly or unlikely to improve our competitive position. Longer-term, these activities require increased investment in management personnel, financial and management systems and controls and facilities, which, in the absence of continued revenue growth, would cause our operating margins to decline. More generally, any difficulties that we experience could disrupt our ongoing business, increase our expenses and adversely affect our operating results and financial condition. We also may be unable to achieve anticipated benefits and synergies from the transaction as fully as expected or within the expected time frame. Divestitures or elimination of existing businesses or products could have similar effects.

To the extent that we pursue corporate development activities outside of the United States, including acquisitions, joint ventures and minority investment stakes, we will be subject to political, economic, legal, operational and other risks that are inherent in operating in a foreign country. These risks include possible nationalization, expropriation, price controls, capital controls, exchange controls and other restrictive governmental actions, as well as the outbreak of hostilities. We intend to further invest in our Asia-based business, particularly China, over time and this expansion will increase our exposure to these risks. In addition, the laws and regulations applicable to the securities and financial services industries in many countries are uncertain and evolving, and it may be difficult for us to determine the exact requirements of local laws in every market. Our inability to remain in compliance with local laws in a particular foreign market could have a significant and negative effect not only on our businesses in that market but also on our reputation generally. We are also subject to the enhanced risk that transactions we structure (for example, joint ventures) might not be legally enforceable in the relevant jurisdictions.

Asset management revenue may vary based on investment performance and market and economic factors.

We have grown our asset management business in recent years, including most recently with the acquisition of ARI. As our revenues and pre-tax income contributions from this business increase, the risks associated with the asset management business relative to our overall operations also increase. Assets under management are a significant driver of this business, as revenues are primarily derived from management fees tied to the assets under management. Our ability to maintain or increase assets under management is subject to a number of factors, including investors perception of our past performance, market or economic conditions, competition from other fund managers and our ability to negotiate terms with major investors.

Investment performance is one of the most important factors in retaining existing clients and competing for new asset management business. Poor investment performance and other competitive factors could reduce our revenues and impair our growth in many ways: existing clients may withdraw funds from our asset management business in favor of better performing products or a different investment style or focus; our capital investments in our investment funds or the seed capital we have committed to new asset management products may diminish in value or may be lost; and our key employees in the business may depart, whether to join a competitor or otherwise.

To the extent our future investment performance is perceived to be poor in either relative or absolute terms, our asset management revenues will likely be reduced and our ability to raise new funds will likely be impaired. Even when market conditions are generally favorable, our investment performance may be adversely affected by our investment style and the particular investments that we make. Further, as the size and number of investment funds, including exchange-traded funds, hedge funds and private equity funds increases, it is possible that it will become increasingly difficult for us to raise capital for new investment funds or price competition may mean that we are unable to maintain our current fee structures.

Our asset management business has a higher concentration of key clients as compared to our other businesses, and the loss of one or more of these clients could have a material adverse affect on our asset management revenues. As an example, each of FAMCO and ARI depends in part upon one or more significant clients, and the loss of one or more of these clients would have an adverse effect on revenues.

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We enter into off-balance sheet arrangements that may be required to be consolidated on our financial statements based on future events outside of our control, including changes in complex accounting standards.

In the normal course of our business, we periodically create or transact with entities that are investment vehicles organized as limited partnerships or limited liability companies, established for the purpose of investing in equity or debt securities of public and private companies or various partnership entities. Certain of these entities have been identified as variable interest entities (VIEs). We are required to consolidate onto our consolidated statement of financial condition all VIEs for which we are considered to be the primary beneficiary as defined under applicable accounting standards. The assessment of whether the accounting criteria for consolidation are met requires management to exercise significant judgment. If certain events occur that require us to re-assess our initial determination of non-consolidation or if our judgment of non-consolidation is in error, we could be required to consolidate the assets and liabilities of a VIE onto our consolidated statement of financial condition and recognize its future gains or losses in our consolidated statement of operations. For reasons outside of our control, including changes in existing accounting standards, or interpretations of those standards, the risk of consolidation of these VIEs could increase. Further consolidation would affect the size of our consolidated statement of financial condition.

We have experienced significant pricing pressure in areas of our business, which may impair our revenues and profitability.

In recent years we have experienced significant pricing pressures on trading margins and commissions in equity and fixed income trading. In the fixed income market, regulatory requirements have resulted in greater price transparency, leading to increased price competition and decreased trading margins in certain instances. In the equity market, we have experienced increased pricing pressure from institutional clients to reduce commissions, and this pressure has been augmented by the increased use of electronic and direct market access trading, which has created additional competitive downward pressure on trading margins. The trend toward using alternative trading systems is continuing to grow, which may result in decreased commission and trading revenue, reduce our participation in the trading markets and our ability to access market information, and lead to the creation of new and stronger competitors. Institutional clients also have pressured financial services firms to alter soft dollar practices under which brokerage firms bundle the cost of trade execution with research products and services. Some institutions are entering into arrangements that separate (or unbundle) payments for research products or services from sales commissions. These arrangements have increased the competitive pressures on sales commissions and have affected the value our clients place on high-quality research. Additional pressure on sales and trading revenue may impair the profitability of our business. Moreover, our inability to reach agreement regarding the terms of unbundling arrangements with institutional clients who are actively seeking such arrangements could result in the loss of those clients, which would likely reduce our institutional commissions. We believe that price competition and pricing pressures in these and other areas will continue as institutional investors continue to reduce the amounts they are willing to pay, including by reducing the number of brokerage firms they use, and some of our competitors seek to obtain market share by reducing fees, commissions or margins.

We may suffer losses if our reputation is harmed.

Our ability to attract and retain customers and employees may be diminished to the extent our reputation is damaged. If we fail, or are perceived to fail, to address various issues that may give rise to reputational risk, we could harm our business prospects. These issues include, but are not limited to, appropriately dealing with market dynamics, potential conflicts of interest, legal and regulatory requirements, ethical issues, customer privacy, record-keeping, sales and trading practices, and the proper identification of the legal, reputational, credit, liquidity and market risks inherent in our products and services. Failure to appropriately address these issues could give rise to loss of existing or future business, financial loss, and legal or regulatory liability, including complaints, claims and enforcement proceedings against us, which could, in turn, subject us to fines, judgments and other penalties.

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Regulatory capital requirements may limit our ability to expand or maintain present levels of our business or impair our ability to meet our financial obligations.

We are subject to the SEC s uniform net capital rule (Rule 15c3-1) and the net capital rule of FINRA, which may limit our ability to make withdrawals of capital from Piper Jaffray & Co., our U.S. broker dealer subsidiary. The uniform net capital rule sets the minimum level of net capital a broker dealer must maintain and also requires that a portion of its assets be relatively liquid. FINRA may prohibit a member firm from expanding its business or paying cash dividends if resulting net capital falls below its requirements. Underwriting commitments require a charge against net capital and, accordingly, our ability to make underwriting commitments may be limited by the requirement that we must at all times be in compliance with the applicable net capital regulations. In addition, Piper Jaffray Ltd., our London-based broker dealer subsidiary, and Piper Jaffray Asia, our Hong Kong-based broker dealer subsidiary, are subject to similar limitations under applicable laws in those jurisdictions.

As Piper Jaffray Companies is a holding company, it depends on dividends, distributions and other payments from our subsidiaries to fund its obligations, including any share repurchases that we may make. The regulatory restrictions described above may impede access to funds our holding company needs to make payments on any such obligations.

Our technology systems, including outsourced systems, are critical components of our operations, and failure of those systems or other aspects of our operations infrastructure may disrupt our business, cause financial loss and constrain our growth.

We typically transact thousands of securities trades on a daily basis across multiple markets. Our data and transaction processing, custody, financial, accounting and other technology and operating systems are essential to this task. A system malfunction or mistake made relating to the processing of transactions could result in financial loss, liability to clients, regulatory intervention, reputational damage and constraints on our ability to grow. We outsource a substantial portion of our critical data processing activities, including trade processing and back office data processing. For example, we have entered into contracts with Broadridge Financial Solutions, Inc. pursuant to which Broadridge handles our trade and back office processing, and Unisys Corporation, pursuant to which Unisys supports our data center and helpdesk needs. We also contract with third parties for our market data services, which constantly broadcast news, quotes, analytics and other relevant information to our employees. We contract with other vendors to produce and mail our customer statements and to provide other services. In the event that any of these service providers fails to adequately perform such services or the relationship between that service provider and us is terminated, we may experience a significant disruption in our operations, including our ability to timely and accurately process transactions or maintain complete and accurate records of those transactions.

Adapting or developing our technology systems to meet new regulatory requirements, client needs, geographic expansion and industry demands also is critical for our business. Introduction of new technologies present new challenges on a regular basis. We have an ongoing need to upgrade and improve our various technology systems, including our data and transaction processing, financial, accounting, risk management and trading systems. This need could present operational issues or require significant capital spending. It also may require us to make additional investments in technology systems and may require us to reevaluate the current value and/or expected useful lives of our technology systems, which could negatively impact our results of operations.

Secure processing, storage and transmission of confidential and other information in our computer systems and networks also is critically important to our business. We take protective measures and endeavor to modify them as circumstances warrant. However, our computer systems, software and networks may be vulnerable to unauthorized access, computer viruses or other malicious code, inadvertent, erroneous or intercepted transmission of information (including by e-mail), and other events that could have an information security impact. If one or more of such events occur, this potentially could jeopardize our or our clients or counterparties confidential and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our, our clients , our counterparties or third parties operations. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by us.

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A disruption in the infrastructure that supports our business due to fire, natural disaster, health emergency (for example, a disease pandemic), power or communication failure, act of terrorism or war may affect our ability to service and interact with our clients. If we are not able to implement contingency plans effectively, any such disruption could harm our results of operations.

Provisions in our certificate of incorporation and bylaws and of Delaware law may prevent or delay an acquisition of our company, which could decrease the market value of our common stock.

Our certificate of incorporation and bylaws and Delaware law contain provisions that are intended to deter abusive takeover tactics by making them unacceptably expensive to the raider and to encourage prospective acquirors to negotiate with our board of directors rather than to attempt a hostile takeover. These provisions include limitations on actions by our shareholders by written consent and a rights plan that gives our board of directors the right to issue preferred stock without shareholder approval, which could be used to dilute the stock ownership of a potential hostile acquiror. Delaware law also imposes some restrictions on mergers and other business combinations between us and any holder of 15 percent or more of our outstanding common stock. In connection with our spin-off from U.S. Bancorp we adopted a rights agreement, which would impose a significant penalty on any person or group that acquires 15 percent or more of our outstanding common stock without the approval of our board of directors. We believe these provisions protect our shareholders from coercive or otherwise unfair takeover tactics by requiring potential acquirors to negotiate with our board of directors and by providing our board of directors with more time to assess any acquisition proposal, and are not intended to make our company immune from takeovers. However, these provisions apply even if the offer may be considered beneficial by some shareholders and could delay or prevent an acquisition that our board of directors determines is not in the best interests of our company and our shareholders.

ITEM 1B. *UNRESOLVED STAFF COMMENTS.*

None.

ITEM 2. *PROPERTIES.*

As of February 18, 2011, we conducted our operations through 31 principal offices in 17 states and in Hong Kong, Shanghai and London. All of our offices are leased. Our principal executive office is located at 800 Nicollet Mall, Suite 800, Minneapolis, Minnesota and, as of February 18, 2011, comprises approximately 320,000 square feet of leased space (of which approximately 82,000 square feet have been subleased to others and approximately 80,000 square feet will be contracted from the leased premises through an early reduction option). We have entered into a sublease arrangement with U.S. Bancorp, as lessor, for our offices at 800 Nicollet Mall, the term of which expires on May 29, 2014.

ITEM 3. *LEGAL PROCEEDINGS.*

Due to the nature of our business, we are involved in a variety of legal proceedings (including, but not limited to, those described below). These proceedings include litigation, arbitration and regulatory proceedings, which may arise from, among other things, underwriting or other transactional activity, client account activity, employment matters, regulatory examinations of our businesses and investigations of securities industry practices by governmental agencies and self-regulatory organizations. The securities industry is highly regulated, and the regulatory scrutiny applied to securities firms is intense, resulting in a significant number of regulatory investigations and enforcement actions and uncertainty regarding the likely outcome of these matters.

Litigation-related expenses include amounts we reserve and/or pay out as legal and regulatory settlements, awards or judgments, and fines. Parties who initiate litigation and arbitration proceedings against us may seek substantial or indeterminate damages, and regulatory investigations can result in substantial fines being imposed on us. We reserve for contingencies related to legal proceedings at the time and to the extent we determine the amount to be probable and reasonably estimable. However, it is inherently difficult to predict accurately the timing and outcome of legal proceedings, including the amounts of any settlements, judgments or fines. We assess each proceeding based on its particular facts, our outside advisors and our past experience with similar matters, and expectations regarding the current legal and regulatory environment and other external developments that might affect the outcome of a particular proceeding or type of proceeding. We believe, based on our current knowledge, after appropriate consultation with outside legal counsel and in light of our established reserves, that pending litigation, arbitration and regulatory proceedings, including those described below, will be resolved with no material adverse effect on our financial condition. Of course, there can be no assurance that our assessments will reflect the ultimate outcome of pending proceedings, and the outcome of any particular matter may be material to our operating results for any particular period, depending, in part, on the operating results for that period and the amount of established reserves. We generally have denied, or believe that we have meritorious defenses and will deny, liability in all significant cases currently pending against us, and we intend to vigorously defend such actions.

Municipal Derivatives Investigations and Litigation

The U.S. Department of Justice (DOJ), Antitrust Division, the SEC and various state attorneys general are conducting broad investigations of numerous firms, including Piper Jaffray, 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, and we have received and responded to various subpoenas and requests for information. In December 2007, the DOJ notified one of our employees, whose employment subsequently was terminated, that he is regarded as a target of the investigation. In addition, several class action complaints have been brought on behalf of a purported class of state, local and municipal government entities that purchased municipal derivatives directly from one of the defendants or through a broker, from January 1, 1992, to the present. The complaints, which have been consolidated in *In re Municipal Derivatives Antitrust Litigation*, MDL No. 1950 (Master Docket No. 08-2516), allege antitrust violations and civil fraud and are pending in the U.S. District Court for the Southern District of New York under the multi-district litigation rules. The complaints seek unspecified treble damages under the Sherman Act. Several California municipalities have brought separate class action complaints in California, which have since been transferred to the Southern District of New York and consolidated for pretrial purposes. In addition, approximately eleven California municipalities have filed individual lawsuits and not as a part of class actions. These individual California lawsuits have also been transferred to the Southern District of New York and consolidated for pretrial purposes. All three sets of complaints assert similar claims under federal (and for the California plaintiffs, state) antitrust claims.

ITEM 4. *[REMOVED AND RESERVED]*

PART II

ITEM 5. *MARKET FOR COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.*

Our common stock is listed on the New York Stock Exchange under the symbol PJC. The following table contains historical quarterly price information for the years ended December 31, 2010 and 2009. On February 18, 2011, the last reported sale price of our common stock was $43.42.

2010 Fiscal Year	**High**	**Low**
First Quarter	$ 51.92	$ 40.30
Second Quarter	43.83	31.36
Third Quarter	32.04	27.07
Fourth Quarter	35.60	28.59

2009 Fiscal Year	High	Low
First Quarter	$ 38.19	$ 18.73
Second Quarter	44.74	25.54
Third Quarter	50.76	40.26
Fourth Quarter	57.45	43.35

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Shareholders

We had 18,917 shareholders of record and approximately 41,300 beneficial owners of our common stock as of February 18, 2011.

Dividends

We do not intend to pay cash dividends on our common stock for the foreseeable future. Our board of directors is free to change our dividend policy at any time. Restrictions on our U.S. broker dealer subsidiary s ability to pay dividends are described in Note 25 to the consolidated financial statements. Also, we recently entered into a bank syndicated credit agreement, as described in Note 16 to the consolidated financial statements, and it includes a restrictive covenant that restricts our ability to pay cash dividends.

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.

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 December 31, 2010.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs(1)
Month #1 (October 1, 2010 to October 31, 2010)	84,005	$ 28.62	84,005	$ 57 million
Month #2 (November 1, 2010 to November 30, 2010)	10,527	$ 32.55		$ 57 million
Month #3 (December 1, 2010 to December 31, 2010)	5,169	$ 32.87		$ 57 million
Total	99,701	$ 29.25	84,005	$ 57 million

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

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Stock Performance Graph

The following graph compares the performance of an investment in our common stock from December 31, 2005 through December 31, 2010, with the S&P 500 Index and the S&P 500 Diversified Financials Index. The graph assumes $100 was invested on December 31, 2005, in each of our common stock, the S&P 500 Index and the S&P 500 Diversified Financials Index and that all dividends were reinvested on the date of payment without payment of any commissions. Dollar amounts in the graph are rounded to the nearest whole dollar. The performance shown in the graph represents past performance and should not be considered an indication of future performance.

CUMULATIVE TOTAL RETURN FOR PIPER JAFFRAY COMMON STOCK, THE S&P 500 INDEX AND THE S&P DIVERSIFIED FINANCIALS INDEX

Company/Index	**12/31/2005**	**12/31/2006**	**12/31/2007**	**12/31/2008**	**12/31/2009**	**12/31/2010**
Piper Jaffray Companies	**100**	161.26	114.65	98.42	125.27	86.66
S&P 500 Index	**100**	115.79	122.16	76.96	97.33	111.99
S&P 500 Diversified Financials	**100**	123.90	100.84	41.72	54.41	57.17

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ITEM 6. ***SELECTED FINANCIAL DATA.***

The following table presents our selected consolidated financial data for the periods and dates indicated. The information set forth below should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and notes thereto.

	For The Year Ended December 31,				
llars and shares in thousands, except per share data)	**2010**	**2009**	**2008**	**2007**	**2006**
venues:					
estment banking	**$ 266,386**	$ 207,701	$ 159,747	$ 302,428	$ 298,3
itutional brokerage	**167,954**	221,117	117,201	151,464	160,5
erest	**51,851**	40,651	50,377	60,873	64,1
et management	**66,827**	14,681	16,969	6,446	2
er income	**12,043**	2,731	2,639	6,856	14,2
al revenues	**565,061**	486,881	346,933	528,067	537,3
erest expense	**34,987**	18,091	20,536	23,689	32,3
revenues	**530,074**	468,790	326,397	504,378	505,0
n-interest expenses:					
mpensation and benefits	**315,203**	281,277	249,438	329,811	357,9
tructuring-related expenses	**10,863**	3,572	17,865		
odwill impairment			130,500		
er	**146,292**	127,389	152,201	144,138	113,7
al non-interest expenses	**472,358**	412,238	550,004	473,949	471,7
ome/(loss) from continuing operations before ome tax expense/(benefit)	**57,716**	56,552	(223,607)	30,429	33,3
ome tax expense/(benefit)	**33,354**	26,183	(40,133)	5,790	10,2
income/(loss) from continuing operations	**24,362**	30,369	(183,474)	24,639	23,1
continued operations:					
ome/(loss) from discontinued operations, net of tax			499	(2,696)	172,2
income/(loss)	**$ 24,362**	$ 30,369	$ (182,975)	$ 21,943	$ 195,4
income applicable to common shareholders	**$ 18,929**	$ 24,888	N/A	$ 19,827	$ 177,0
rnings per basic common share					
ome/(loss) from continuing operations	**$ 1.23**	$ 1.56	$ (11.59)	$ 1.35	$ 1.
ome/(loss) from discontinued operations			0.03	(0.15)	8.
nings per basic common share	**$ 1.23**	$ 1.56	$ (11.55)	$ 1.20	$ 9.
rnings per diluted common share					

ome/(loss) from continuing operations	**$**	**1.23**	$	1.55	$	(11.59)	$	1.34	$	1.
ome/(loss) from discontinued operations						0.03		(0.15)		8.6
nings per diluted common share	**$**	**1.23**	$	1.55	$	(11.55)(1)	$	1.20	$	9.
ighted average number of common shares										
ic		**15,348**		15,952		15,837		16,474		18,00
uted		**15,378**		16,007		15,837(1)		16,578		18,09
er data										
al assets	**$**	**2,033,787**	$	1,703,330	$	1,320,158	$	1,759,986	$	1,876,6
g-term debt	**$**	**125,000**	$		$		$		$	
reholders equity	**$**	**813,312**	$	778,616	$	747,979	$	895,147	$	904,8
al employees		**1,031**		1,039		1,038		1,082		1,0

(1) Earnings per diluted common share is calculated using the basic weighted average number of common shares outstanding for periods in which a loss is incurred.

N/A Not applicable as no allocation of income was made due to loss position.

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ITEM 7. *MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION.*

The following information should be read in conjunction with the accompanying audited 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 this Form 10-K 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 this Form 10-K, as updated in our subsequent reports filed with the SEC. These reports are available at our Web site at www.piperjaffray.com and at the SEC Web site at www.sec.gov. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update them in light of new information or future events.

Executive Overview

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

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

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

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

Results for the Year Ended December 31, 2010

For the year ended December 31, 2010, we recorded net income of $24.4 million, or $1.23 per diluted common share, compared with net income of $30.4 million, or $1.55 per diluted common share, for the prior year. Net revenues for the year ended December 31, 2010 were $530.1 million, up 13.1 percent from $468.8 million reported in 2009. Increased revenues from equity financings, advisory services and asset management, driven by our acquisition of ARI, were partially offset by lower institutional brokerage revenues. For the year ended December 31, 2010, non-interest expense increased 14.6 percent to $472.4 million, compared to 2009. This increase was primarily due to higher compensation costs, charges related to restructuring the firm s European operations and the addition of ARI, including amortization expense on customer contract intangible assets recorded in conjunction with the acquisition.

Market Data

The following table provides a summary of relevant market data over the past three years.

Year Ended December 31,	2010	2009	2008	2010 v 2009	2009 v 2008
Dow Jones Industrials Average *(a)*	**11,578**	10,428	8,776	11.0%	18.8%
NASDAQ *(a)*	**2,653**	2,269	1,577	16.9	43.9
NYSE Average Daily Number of Shares Traded (millions of shares)	**1,764**	2,181	2,609	(19.1)	(16.4)
NASDAQ Average Daily Number of Shares Traded (millions of shares)	**2,192**	2,225	2,259	(1.5)	(1.5)
Mergers and Acquisitions (number of transactions in U.S.) *(b)*	**8,214**	8,180	9,653	0.4	(15.3)
Public Equity Offerings (number of transactions in U.S.) *(c)(e)*	**783**	776	401	0.9	93.5
Initial Public Offerings (number of transactions in U.S.) *(c)*	**155**	58	48	167.2	20.8
Managed Municipal Underwritings (number of transactions in U.S.) *(d)*	**13,770**	11,721	10,830	17.5	8.2
Managed Municipal Underwritings (value of transactions in billions in U.S.) *(d)*	**$ 433.0**	$ 409.7	$ 389.6	5.7	5.2
10-Year Treasuries Average Rate	**3.21%**	3.26%	3.67%	(1.3)	(11.2)
3-Month Treasuries Average Rate	**0.14%**	0.15%	1.37%	(8.9)	(89.1)

(a) Data provided is at period end.

(b) Source: Securities Data Corporation.

(c) Source: Dealogic (offerings with reported market value greater than $20 million).

(d) Source: Thomson Financial.

(e) Number of transactions includes convertible offerings.

External Factors Impacting Our Business

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

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

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

Outlook for 2011

During 2010, market conditions continued to improve as the macroeconomic environment strengthened. Equity financing revenues improved significantly and advisory services revenues continued trending upward as the equity market showed increasing momentum, particularly in the fourth quarter. If the markets remain favorable in 2011, growth sectors of equity capital markets and advisory services should benefit. However, we are cautious about the potential for volatile periods in the capital markets in the year ahead. The municipal market environment at the end of 2010 was challenging with the increase in interest rates, the expiration of the Build America Bonds program and concerns about municipal-issuer credit quality. We anticipate that these structural headwinds in the municipal market will continue into 2011, and consequently, that volatility in this market will continue as well. In 2010, we experienced reduced equity trading volumes, resulting in lower equity institutional brokerage revenues. We expect this industry-wide trend to continue in 2011. The acquisition of ARI has added scale to our asset management business, provided a more stable revenue stream and a platform to support future organic growth.

Restructuring of European Operations

In the fourth quarter of 2010, we restructured our European operations to focus European resources on two areas: the distribution of U.S. and Asia securities to European institutional investors and merger and acquisition advisory services. As a result of the restructuring, we exited the origination and distribution of European securities and incurred a pre-tax restructuring charge of $9.3 million in 2010. This action allows us to redeploy resources to China, where we see significant opportunities.

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Results of Operations

Financial Summary

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 Year Ended December 31,					As a Percentage of Net Revenues For the Year Ended December 31,		
mounts in thousands)	**2010**	**2009**	**2008**	**2010 v2009**	**2009 v2008**	**2010**	**2009**	**2008**
evenues:								
nvestment banking	**$ 266,386**	$ 207,701	$ 159,747	28.3%	30.0%	**50.3**%	44.3%	48.9%
nstitutional brokerage	**167,954**	221,117	117,201	(24.0)	88.7	**31.7**	47.2	35.9
nterest	**51,851**	40,651	50,377	27.6	(19.3)	**9.8**	8.7	15.5
sset management	**66,827**	14,681	16,969	355.2	(13.5)	**12.6**	3.1	5.2
ther income	**12,043**	2,731	2,639	341.0	3.5	**2.2**	0.6	0.8
otal revenues	**565,061**	486,881	346,933	16.1	40.3	**106.6**	103.9	106.3
nterest expense	**34,987**	18,091	20,536	93.4	(11.9)	**6.6**	3.9	6.3
et revenues	**530,074**	468,790	326,397	13.1	43.6	**100.0**	100.0	100.0
on-interest expenses:								
ompensation and benefits	**315,203**	281,277	249,438	12.1	12.8	**59.5**	60.0	76.4
ccupancy and equipment	**33,597**	29,705	33,034	13.1	(10.1)	**6.3**	6.3	10.1
ommunications	**24,614**	22,682	25,098	8.5	(9.6)	**4.6**	4.8	7.7
loor brokerage and clearance	**11,626**	11,948	12,787	(2.7)	(6.6)	**2.2**	2.5	3.9
larketing and business evelopment	**23,715**	18,969	25,249	25.0	(24.9)	**4.5**	4.1	7.8
utside services	**32,120**	29,657	41,212	8.3	(28.0)	**6.1**	6.3	12.6
estructuring-related expense	**10,863**	3,572	17,865	204.1	(80.0)	**2.0**	0.8	5.5
oodwill impairment			130,500	N/M	(100.0)			40.0
ther operating expenses	**20,620**	14,428	14,821	42.9	(2.7)	**3.9**	3.1	4.5
otal non-interest expenses	**472,358**	412,238	550,004	14.6%	(25.0)%	**89.1**	87.9	168.5
ncome/(loss) from ontinuing operations before ncome tax expense/(benefit)	**57,716**	56,552	(223,607)	2.1	N/M	**10.9**	12.1	(68.5)
ncome tax expense/(benefit)	**33,354**	26,183	(40,133)	27.4	N/M	**6.3**	5.6	(12.3)
et income/(loss) from ontinuing operations	**24,362**	30,369	(183,474)	(19.8)	N/M	**4.6**	6.5	(56.2)

iscontinued operations:								
ncome from discontinued perations, net of tax			499	N/M	N/M			0.1
et income/(loss)	**$ 24,362**	$ 30,369	$ (182,975)	(19.8)	N/M	**4.6**%	6.5%	(56.1)%
et income applicable to ommon shareholders	**$ 18,929**	$ 24,888	N/A	(23.9)	N/M	**3.6**%	5.3%	N/A

N/M Not meaningful

N/A Not applicable as no allocation of income was made due to loss position

For the year ended December 31, 2010, we recorded net income of $24.4 million, which included $10.2 million (after-tax) of restructuring charges. Net revenues from continuing operations in 2010 were $530.1 million, a 13.1 percent increase compared to $468.8 million in 2009. In 2010, investment banking revenues increased 28.3 percent to $266.4 million, compared with revenues of $207.7 million in 2009, driven by increased equity financing and advisory services revenues, partially offset by a decline in debt financing revenues. Institutional brokerage revenues decreased 24.0 percent to $168.0 million in 2010, from $221.1 million in 2009, due to a decline in both equity and fixed income trading revenues. In 2010, net interest income decreased 25.2 percent to $16.9 million, compared with $22.6 million in 2009. The decrease was primarily the result of interest expense on the $120 million of variable rate senior notes issued December 31, 2009 to finance a portion of the ARI acquisition. In 2010, asset management fees were $66.8 million, compared with $14.7 million in 2009. The increased revenues were attributed to the results for ARI, which we acquired on March 1, 2010. Other income for the year ended December 31, 2010 was $12.0 million, compared with $2.7 million in 2009. The change in other income was attributable to gains recorded on our firm investments and higher income associated with the forfeitures of stock-based compensation. Non-interest expenses increased to $472.4 million in 2010, from $412.2 million in 2009, due to increased compensation and benefits expenses, $10.9 million of restructuring expenses and incremental expenses related to the acquisition of ARI.

For the year ended December 31, 2009, we recorded net income of $30.4 million. Net revenues from continuing operations in 2009 were $468.8 million, a 43.6 percent increase compared to $326.4 million in 2008. In 2009, investment banking revenues increased 30.0 percent to $207.7 million compared with revenues of $159.7 million in 2008. Equity financing revenues contributed to the majority of the increase as all products, particularly registered direct offerings, reported improved performance compared to 2008. Institutional brokerage revenues increased 88.7 percent to $221.1 million in 2009, from $117.2 million in 2008 driven by significantly higher fixed income sales and trading revenues. In 2008, we recorded large losses on our tender option bond (TOB) program and high yield and structured products. In 2009, net interest income decreased 24.4 percent to $22.6 million, compared with $29.8 million in 2008. The decrease was primarily the result of a decline in net interest income earned on net inventory balances as we significantly reduced our balance sheet exposure in late 2008 and early 2009, and increased financing costs in 2009 related to our funding sources. In 2009, asset management fees were $14.7 million, compared with $17.0 million in 2008, due to lower assets under management resulting from reduced asset valuations. In 2009, other income was $2.7 million, essentially flat compared to 2008. Non-interest expenses decreased to $412.2 million in 2009, from $550.0 million in 2008. In 2008, we incurred a $130.5 million pre-tax charge for impairment of goodwill related to our capital markets business and $17.9 million of restructuring-related charges.

Consolidated Non-Interest Expenses

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

In 2010, compensation and benefits expenses increased 12.1 percent to $315.2 million from $281.3 million in 2009. This increase was due to higher base salaries and additional compensation expense from the acquisition of ARI, partially offset by a $5.0 million reversal of compensation expense associated with a performance-based restricted stock award granted to our leadership team. In the third quarter of 2010, we deemed it improbable that we will meet the performance target of this award, requiring us to reverse the previously recognized compensation expense. Compensation and benefits expenses as a percentage of net revenues were 59.5 percent for 2010, compared with 60.0 percent for 2009. Excluding the $5.0 million reversal of compensation expense, compensation and benefits expenses as a percentage of net revenues were 60.4 percent for 2010.

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Compensation and benefits expenses increased 12.8 percent to $281.3 million in 2009, from $249.4 million in 2008. This increase was due to higher variable compensation costs resulting from increased net revenues and profitability, offset in part by cost savings associated with restructuring-related activities that occurred in late 2008 and early 2009. Compensation and benefits expenses as a percentage of net revenues were 60.0 percent for 2009, compared with 76.4 percent for 2008. At the end of 2008, a significant portion of our guaranteed incentive compensation matured, resulting in a compensation structure that was more variable and better aligned with profitability and revenues in 2009.

Occupancy and Equipment Occupancy and equipment expenses were $33.6 million in 2010, compared with $29.7 million in 2009. The increase was attributable to incremental occupancy costs as we transitioned to new office space in New York City and Hong Kong.

In 2009, occupancy and equipment expenses were $29.7 million, compared with $33.0 million in 2008. The decrease was attributable to prior investments in technology and equipment becoming fully depreciated and a decrease in base rent as a result of cost saving initiatives in 2008.

Communications Communication expenses include costs for telecommunication and data communication, primarily consisting of expenses for obtaining third-party market data information. In 2010, communication expenses were $24.6 million, compared with $22.7 million in 2009. The increase was due to higher market data service expenses.

In 2009, communication expenses were $22.7 million, compared with $25.1 million in 2008. The decrease was attributable to reduced data communication expenses as a result of cost saving initiatives in 2008 and early 2009.

Floor Brokerage and Clearance For the year ended 2010, floor brokerage and clearance expenses were $11.6 million, essentially flat compared with 2009.

In 2009, floor brokerage and clearance expenses decreased 6.6 percent to $11.9 million, compared with 2008, due to lower regulatory assessment fees and expenses associated with accessing electronic communications networks.

Marketing and Business Development Marketing and business development expenses include travel and entertainment and promotional and advertising costs. In 2010, marketing and business development expenses increased 25.0 percent to $23.7 million, compared with $19.0 million in the prior year. This increase was driven by higher travel costs associated with increased investment banking activities and incremental expense from the acquisition of ARI.

In 2009, marketing and business development expenses decreased 24.9 percent to $19.0 million, compared with $25.2 million in the prior year. This decrease was due to cost saving actions taken in late 2008, as well as a decline in employee travel expenses. Additionally, in 2008 we incurred higher travel expenses associated with write-offs related to equity financings that were never completed.

Outside Services Outside services expenses include securities processing expenses, outsourced technology functions, outside legal fees and other professional fees. In 2010, outside services expenses increased 8.3 percent to $32.1 million, compared with $29.7 million in 2009, due primarily to increased legal fees and incremental expenses from our acquisition of ARI.

In 2009, outside services expenses decreased to $29.7 million, compared with $41.2 million in 2008, primarily due to reductions in legal fees and consulting costs. Also, in 2009 we changed vendors for certain outsourced technology functions, which lowered expenses associated with those functions. Offsetting a portion of this decrease was $1.4 million of legal and professional fees associated with the announced acquisition of ARI.

Restructuring-Related Expense In 2010, we recorded a pre-tax restructuring charge of $10.9 million, primarily related to restructuring the firm s European operations, consisting of employee severance costs, charges related to leased office space and contract termination costs related to the modification of technology contracts.

In 2009, we recorded a pre-tax restructuring charge of $3.6 million, primarily consisting of employee severance costs and charges related to leased office space.

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During 2008, we implemented certain expense reduction measures as a means to better align our cost infrastructure with our revenues. This resulted in a pre-tax restructuring charge of $17.9 million in 2008, consisting of $12.5 million in severance costs resulting from a reduction of approximately 230 employees, $5.0 million related to leased office space and $0.4 million of other restructuring-related expenses.

Goodwill Impairment During the fourth quarter of 2008, we completed our annual goodwill impairment testing, which resulted in a non-cash goodwill impairment charge of $130.5 million to our capital markets reporting unit. The charge primarily related to the goodwill resulting from our 1998 acquisition by U.S. Bancorp, which was retained when we spun off as a separate public company on December 31, 2003.

Other Operating Expenses Other operating expenses include insurance costs, license and registration fees, expenses related to our charitable giving program, amortization of intangible assets and litigation-related expenses, which consist of the amounts we reserve and/or pay out related to legal and regulatory matters. In 2010, other operating expenses were $20.6 million, compared with $14.4 million in 2009. This increase was primarily due to intangible amortization expense related to ARI.

In 2009, other operating expenses were $14.4 million, essentially the same as 2008.

Income Taxes In 2010, our provision for income taxes from continuing operations was $33.4 million, an effective tax rate of 57.8 percent, compared with $26.2 million, an effective tax rate of 46.3 percent, for 2009, and compared with a benefit of $40.1 million, an effective tax rate of 18.0 percent, for 2008. Our elevated tax rate in 2010 was principally due to a $5.8 million write-off of deferred tax assets resulting from restricted stock grants that vested at share prices lower than the grant date share price and our net operating losses in the U.K. We maintain a 100 percent valuation allowance against our U.K. based deferred tax assets. Therefore, we did not recognize a tax benefit from the U.K. net operating losses.

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Segment Performance

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

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

	For the Year Ended December 31,				
(Dollars in thousands)	**2010**	**2009**	**2008**	**2010 v2009**	**2009 v2008**
Net revenues					
Capital Markets	**$ 462,867**	$ 453,876	$ 310,801	2.0%	46.0%
Asset Management	**67,207**	14,914	15,596	350.6	(4.4)
Total net revenues	**$ 530,074**	$ 468,790	$ 326,397	13.1%	43.6%
Pre-tax operating income/(loss)					
Capital Markets	**$ 41,592**	$ 59,310	$ (222,533)	(29.9)%	N/M
Asset Management	**16,124**	(2,758)	(1,074)	N/M	156.8%
Total pre-tax operating income/(loss)	**$ 57,716**	$ 56,552	$ (223,607)	2.1%	N/M
Pre-tax operating margin					
Capital Markets	**9.0%**	13.1%	N/M		
Asset Management	**24.0%**	N/M	N/M		
Total pre-tax operating margin	**10.9%**	12.1%	N/M		

N/M Not meaningful

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Capital Markets

(Dollars in thousands)	**For the Year Ended December 31, 2010**	**2009**	**2008**	**2010 v2009**	**2009 v2008**
Net revenues:					
Investment banking					
Financing					
Equities	**$ 113,711**	$ 81,668	$ 40,845	39.2%	100.0%
Debt	**65,958**	79,104	63,125	(16.6)	25.3
Advisory services	**90,396**	49,518	68,523	82.6	(27.7)
Total investment banking	**270,065**	210,290	172,493	28.4	21.9
Institutional sales and trading					
Equities	**106,206**	120,488	129,867	(11.9)	(7.2)
Fixed income	**79,833**	117,176	6,295	(31.9)	N/M
Total institutional sales and trading	**186,039**	237,664	136,162	(21.7)	74.5
Other income	**6,763**	5,922	2,146	14.2	176.0
Total net revenues	**$ 462,867**	$ 453,876	$ 310,801	2.0%	46.0%
Pre-tax operating income/(loss)	**$ 41,592**	$ 59,310	$ (222,533)	(29.9)%	N/M
Pre-tax operating margin	**9.0**%	13.1%	N/M		

N/M Not meaningful

Capital Markets net revenues increased 2.0 percent to $462.9 million in 2010, compared with $453.9 million in 2009, as increased investment banking revenues were largely offset by lower institutional sales and trading revenues.

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

Investment banking revenues increased 28.4 percent to $270.1 million in 2010, compared with $210.3 million in 2009, driven by increased equity financing and advisory services revenues. In 2010, equity financing revenues increased to $113.7 million, compared with $81.7 million in 2009, resulting from an increase in U.S. and Asia equity underwriting activity and higher revenues per transaction driven by increased revenues derived from bookrun transactions. During 2010, we completed 96 equity financings, raising $11.9 billion in capital for our clients, compared with 79 equity financings, raising $11.8 billion in 2009. Debt financing revenues in 2010 decreased 16.6 percent to $66.0 million, compared with $79.1 million in 2009, due to a decline in the par value of completed transactions and lower revenue per transaction as we completed several large deals in 2009. In 2010, we completed 567 public finance issues with a total par value of $8.1 billion, compared with 526 public finance issues with a total par value of $10.7 billion during 2009. In 2010, advisory services revenues increased 82.6 percent to $90.4 million, compared with $49.5 million in 2009, due to a higher aggregate value of completed transactions and higher revenue per transaction, particularly relating to our U.S. advisory business. We completed 47 transactions with an aggregate enterprise value of $11.3 billion during 2010, compared with 31 transactions with an aggregate enterprise value of $3.7 billion in 2009.

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

In 2010, institutional brokerage revenues declined 21.7 percent to $186.0 million, compared with $237.7 million in 2009, driven by lower institutional brokerage revenues in both equity and fixed income products. Equity institutional brokerage revenues decreased to $106.2 million in 2010, compared with $120.5 million in 2009, mainly due to lower U.S. client volumes. Fixed income institutional brokerage revenues were $79.8 million in 2010, compared with $117.2 million in the prior-year. Fixed income institutional brokerage revenues were particularly robust in 2009 as we experienced a very favorable fixed income trading environment. During 2010, investor concerns over credit quality for municipal-issuers and volatility in interest rates led to wider credit spreads and lower client activity resulting in reduced sales and trading performance.

Other income includes gains and losses from our merchant banking activities and other firm investments, income associated with the forfeiture of stock-based compensation and interest expense related to firm funding. In 2010, other income increased to $6.8 million, compared with $5.9 million in 2009. Gains associated with our firm investments and income associated with the forfeiture of stock-based compensation were offset in part by interest expense on the $120 million of variable rate senior notes issued in December 2009 to fund a portion of the ARI acquisition.

Capital Markets segment pre-tax operating margin for 2010 was 9.0 percent, which was reduced by 2.2 percentage points due to restructuring charges, compared to 13.1 percent for 2009. Additionally, in 2010, we experienced a shift in business with investment banking contributing a higher percentage of revenues and fixed income institutional sales and trading contributing a lower percentage. Investment banking activities generally have a higher level of compensation compared to fixed income institutional sales and trading, which drove the decline in our segment pre-tax operating margin. If this mix of business continues, we anticipate continued pressure on our Capital Markets segment pre-tax operating margin.

Investment banking revenues increased 21.9 percent to $210.3 million in 2009, compared with $172.5 million in 2008 driven by significant increases in equity financing revenues in all products. In 2009, equity financing revenues increased to $81.7 million compared with $40.8 million in 2008 as the equity capital markets were essentially on hold the second half of 2008. During 2009, we completed 79 equity financings, raising $11.8 billion in capital, compared with 42 equity financings in 2008, raising $6.5 billion in capital (excluding the $19.7 billion of capital raised from the VISA initial public offering, on which we were a co-lead manager). We were the bookrunner on 33 of these transactions in 2009 compared with 11 in 2008. Debt financing revenues in 2009 increased 25.3 percent to $79.1 million due to an increase in public finance revenues. During 2009, we completed 526 public finance issues with a total par value of $10.7 billion, compared with 347 public finance issues with a total par value of $7.3 billion during 2008. In 2009, advisory services revenues decreased 27.7 percent to $49.5 million due to a decline in merger and acquisition activity. During 2009, we completed 31 transactions with an aggregate enterprise value of $3.7 billion, compared with 51 transactions with an aggregate enterprise value of $11.6 billion in 2008.

In 2009, institutional brokerage revenues increased 74.5 percent to $237.7 million, compared with $136.2 million in 2008, driven by significantly improved fixed income institutional sales and trading revenues. Equity institutional brokerage revenues decreased 7.2 percent to $120.5 million in 2009, compared with the prior year. Revenues associated with our U.S. high-touch equities business were lower due to a decline in commissions per share earned and lower volumes. Fixed income institutional brokerage revenues increased significantly to $117.2 million in 2009, compared with $6.3 million in 2008, as all fixed income products produced strong revenues. Client flow business was solid across both taxable and tax-exempt fixed income products. Additionally, our fixed income institutional brokerage results in 2009 benefited from favorable market conditions resulting in increased trading profits, including increased profits from our municipal strategic trading activities. In 2008, we recorded losses in high yield and structured products from lower commissions and trading losses, and losses in our discontinued TOB program. Market conditions for high yield corporate bonds and structured products were especially difficult in 2008.

In 2009, other income totaled $5.9 million, compared with $2.1 million in 2008. In 2009, we recorded higher income associated with the valuation of our firm investments.

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Segment pre-tax operating margin for 2009 was 13.1%, compared to a negative margin in 2008 which resulted from the erosion of industry-wide market conditions in 2008 and the $130 million goodwill impairment charge taken in 2008.

Asset Management

(Dollars in thousands)	**For the Year Ended December 31, 2010**	**2009**	**2008**	**2010 v2009**	**2009 v2008**
Net revenues:					
Management fees	**$ 58,080**	$ 13,891	$ 16,969	318.1%	(18.1)%
Performance fees	**8,747**	790		N/M	N/M
Total management and performance fees	**66,827**	14,681	16,969	355.2	(13.5)
Other income/(loss)	**380**	233	(1,373)	63.1	N/M
Net revenues	**$ 67,207**	$ 14,914	$ 15,596	350.6%	(4.4)%
Pre-tax operating income/(loss)	**$ 16,124**	$ (2,758)	$ (1,074)	N/M	156.8%
Pre-tax operating margin	**24.0%**	N/M	N/M		

N/M Not meaningful

Management and performance fee revenues comprise all the revenues generated through management and investment advisory services performed for various funds and separately managed accounts. Performance fees are earned when the investment return on assets under management exceeds certain benchmark targets or other performance targets over a specified measurement period. The majority of the performance fees, if earned, are recorded in the fourth quarter of the applicable year. Management fee revenues increased 318.1 percent to $58.1 million in 2010, compared with $13.9 million in 2009, primarily due to the acquisition of ARI completed on March 1, 2010. Additionally, we recorded $8.7 million in performance fee revenues in 2010, the majority of which was earned by ARI.

Other income/loss includes gains and losses from our investments in funds and partnerships. Other income/loss was $0.4 million in 2010, compared to $0.2 million in 2009.

Operating expenses for 2010 were $51.1 million, compared to $17.7 million in 2009. The increased expense was due to the incremental expenses associated with the acquisition of ARI, which included $7.5 million of intangible amortization expense on customer contract intangible assets recorded in conjunction with the acquisition. Segment pre-tax operating margin for 2010 was 24.0 percent, compared to a negative margin for 2009.

In 2009, management and performance fee revenues decreased to $14.7 million, compared with $17.0 million in 2008, due to lower assets under management as a result of reduced asset valuations.

Other income/loss was a gain of $0.2 million in 2009, compared with a loss of $1.4 million in 2008. In 2008, the loss was due to a decline in the valuation of a fund investment.

Operating expenses for 2009 were $17.7 million in 2009, compared with $16.7 million in 2008. Segment pre-tax operating margin was negative in both 2009 and 2008.

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The following table summarizes the changes in our assets under management for the years ended December 31, 2009 and 2010:

(Dollars in millions)

Assets under management:	
Balance at December 31, 2008	**$ 5,907**
Net inflows/(outflows)	(188)
Net market appreciation	1,140
Balance at December 31, 2009	**$ 6,859**
Assets under management aquired in ARI acquisition	5,563
Net inflows/(outflows)	(1,862)
Net market appreciation	1,737
Balance at December 31, 2010	**$ 12,297**

Assets under management increased $5.4 billion to $12.3 billion in 2010. The increase resulted from the acquisition of ARI completed on March 1, 2010. We experienced a net outflow of $1.9 billion in customer assets under management during 2010, primarily related to one Fiduciary Asset Management, Inc. (FAMCO) customer choosing to reallocate a portion of their assets under management to a passive investment strategy. We believe that management fees from expected customer asset inflows in early 2011, at higher management fees, will substantially mitigate the revenue loss from these client outflows.

We experienced net market appreciation of $1.7 billion during 2010, primarily related to strong performance in small and mid-cap equity and master limited partnership (MLP) product offerings.

Discontinued Operations

Discontinued operations include the operating results of our Private Client Services (PCS) business and related restructuring costs. Our PCS retail brokerage business provided financial advice and a wide range of financial products and services to individual investors through a network of approximately 90 branch offices. The sale of the PCS branch network to UBS closed on August 11, 2006.

We recorded $0.5 million in net income in 2008 from discontinued operations. We may incur discontinued operations expense or income in future periods related to changes in estimates to occupancy restructuring charges if the facts that support our estimates change. See Note 19 to our consolidated financial statements for further discussion of our discontinued operations and restructuring activities.

Recent Accounting Pronouncements

Recent accounting pronouncements are set forth in Note 3 to our consolidated financial statements included in Part II, Item 8 of this Form 10-K, 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 Part II, Item 8 of this Form 10-K. We believe that of our significant accounting policies, the following are our critical accounting policies.

Valuation of Financial Instruments

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

The fair value of a financial instrument is the amount at which the instrument could be exchanged in an orderly transaction between market participants. The degree of judgment used in measuring fair value of financial instruments generally correlates to the level of pricing observability. When available, we use observable market prices, observable market parameters, or broker or dealer prices (bid and ask prices) to derive the fair value of the instrument. In the case of financial instruments transacted on recognized exchanges, the observable market prices represent quotations for completed transactions from the exchange on which the financial instrument is principally traded. Bid prices represent the highest price a buyer is willing to pay for a financial instrument at a particular time. Ask prices represent the lowest price a seller is willing to accept for a financial instrument at a particular time.

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

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

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

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

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

	Level III	
(Dollars in thousands)	**December 31, 2010**	**December 31, 2009**
Assets:		
Financial instruments and other inventory positions owned:		
Corporate securities:		
Equity securities	**$ 1,340**	$
Convertible securities	**2,885**	
Fixed income securities	**6,268**	
Municipal securities:		
Tax-exempt securities	**6,118**	
Short-term securities	**125**	17,825
Asset-backed securities	**45,170**	24,239
Derivative instruments	**4,665**	
Total financial instruments and other inventory positions owned:	**66,571**	42,064
Investments	**9,682**	2,240
Total assets	**$ 76,253**	$ 44,304
Liabilities:		
Financial instruments and other inventory positions sold, but not yet purchased:		
Corporate securities:		
Convertible securities	**$ 1,777**	$
Fixed income securities	**2,323**	7,771
Asset-backed securities	**2,115**	2,154
Derivative instruments	**339**	