2010

Moving Forward Together

SANDERS MORRIS HARRIS

Annual Report 2010

2010

Shareholder Letter

left
Ric Edelman, *President*

right
George L. Ball, *Chairman & CEO*

2010 was a year of significant progress for Sanders Morris Harris Group, both tangible and intangible. Earnings per share were $0.35, versus a loss in the prior year. Revenue was $168.8 million, up from $164.2 million in 2009. Cash flow from operating activities increased to $28.8 million from $20.9 million a year earlier. Earnings from our core continuing operations rose to $0.08 per share in the fourth quarter, which is still below the levels we believe are achievable in the years ahead.

With only minor exceptions, we are now a wealth management firm. That is both our base and our future. To that end, we have disposed of the great bulk of our other activities. Our previous capital markets division has been sold to Madison Williams. Concept Capital, our prime brokerage business, was spun off into a new broker-dealer (although we remain a minority owner).

These and other factors impacted our reported earnings last year, both plus and minus. We realized after-tax gains of $1.4 million from the sale of investments and an after-tax write-up of $7.7 million in the value of our other investment holdings. An after-tax gain of $1.4 million from the sale of Washington Research Group, along with its related operating results, were recorded as discontinued operations. Offsetting the realized and unrealized gains from sale of investments and dispositions was an after-tax loss of $700,000 from the aforementioned divestiture of the capital markets business, including Concept Capital.

Those steps have brought us very close to our goal of being purely a wealth management firm. Achieving that goal will reduce the “noise” in our results, noise which has partially obscured the progress in our core earnings capacity.

In some respects, 2010's core earnings advances and non-core dispositions were not the Company's most important development. During the year, we implemented a strategic plan to add net new fee-based client assets, which we believe will create significantly higher earnings over the coming years. We currently earn on average 97 basis points, or just under 1%, on those assets. While market gains or losses are beyond our control, effective marketing, solid investment management and outstanding client service can attract new clients while bringing additional assets from current clients.

In a rough sense, $400 million of net new client assets will increase earnings per share by one cent a quarter. In the fourth quarter of 2010, the Edelman Financial Services division alone — which represented 34.8% of our client assets — brought in $197 million of net new client funds. Edelman Financial Services is the fastest growing of our businesses, with 14 new offices opened since September 2009. We expect its client assets and earnings to continue to expand swiftly, as detailed below. Our other units, including newly added Global Financial Services with $4.1 billion of assets under management, should be major contributors as well.

It was with that $400 million quarterly goal in mind that we took the following corporate steps:

■ Ric Edelman will become Co-Chief Executive Officer at the annual meeting in May and sole Chief Executive Officer the year after.

■ The Company's name will be changed to The Edelman Financial Group (ticker symbol EF), subject to shareholder approval.

Client assets rose from $11.3 billion to $17.1 billion, a 51.3% increase, highlighted by the addition of Global Financial Services' $4.1 billion of assets.

■ George Ball will continue as Chairman, maintaining his current leadership role for the forseeable future.

■ One Board member will be rotated each year, to maintain a balance between continuity and freshness.

■ We will continue the expansion of Edelman Financial Services while seeking acquisitions of additional high-quality wealth management firms.

The proposed change in our name is the result of investor awareness of, and respect for, the Edelman brand. Even before the debut of the new weekly television series, *The Truth About Money with Ric Edelman*, which will air on more than 200 public television stations across the country, surveys conducted for us by Opinion Research Corporation showed that the Edelman brand is well known and highly regarded. The TV show reaches nearly 90% of all U.S. TV households and should be viewed by over 20 million people in the next year, adding to the value of the Edelman brand, which is already supported by Ric Edelman's radio show that currently airs weekly in 37 markets nationwide.

Sanders Morris Harris has enjoyed a proud history spanning nearly 25 years. Don Sanders and Ben Morris, who will continue to contribute as they have in the past, unreservedly support the rebranding of the Company as additive to shareholder value.

Beyond our plans for the future, the Company's accomplishments in the past year were substantial.

■ Earnings per share from continuing operations grew to $0.35 from $(0.14).

■ Client assets rose from $11.3 billion to $17.1 billion, a 51.3% increase, highlighted by the addition of Global Financial Services and its $4.1 billion of client assets.

■ Edelman Financial Services alone brought in $774.8 million of net new client money. Part of that came from the 14 expansion offices opened since September 2009. Seven more are expected to commence operations during the third quarter of this year.

■ Our purchase of 50.1% of Global Financial Services at year end is especially noteworthy. The principals and staff of that firm are of exceptional quality. It gives us a presence in the international affluent investor market, which has great profit and growth potential.

■ Many of our affiliates and branches had record results. The Rikoon Group, Kissinger Financial, Miller-Green Financial, SMH Capital Advisors, our Houston office branch, and several of our SMH Partners units deserve special mention. They accomplished a great deal for clients and the Company alike.

■ Signet Healthcare Partners closed a third fund, raising $129 million. Its past investment record has been stellar, and was the catalyst which made possible the success of its latest fundraising.

■ Bill Coquelin joined the firm and its Management Committee as Chief Information Officer in early 2011. Bill has more than 20 years of experience and previously held CIO and senior leadership roles with other leading financial services firms.

■ The new Edelman Financial Services offices grew largely as planned. It's rare that expansion efforts can say that; some degree of lag is the norm in the corporate world. However, the Edelman Financial Services branches beyond its Fairfax, VA, headquarters — now numbering 21 — have added assets at the pace predicted and hoped for. As a group, the financial advisors in those branches are right on their targets. That is a promising harbinger for the future.

■ We sold 5.25% of Madison Williams, our former investment bank, for $1.2 million. We retain a 12.25% ownership interest in Madison Williams and have a right to half of the future profits of Madison Williams, to a maximum of $8 million.

■ The original Edelman Financial Services offices in and around Fairfax did splendidly. They added $267 million of net new client assets, a 16.6% gain. Those legacy Edelman Financial Services offices netted $15.8 million, a 74% increase over the prior year.

■ Ric Edelman was ranked the #1 Independent Financial Advisor in the country by *Barron's* magazine for a second year in a row. The fourth edition of Ric's book, *The Truth About Money*, was published in 2010 and recipient of the Excellence in Financial Literacy Award from the Institute for Financial Literacy.

■ Our balance sheet continues to be strong. We had $44.5 million of cash at year end. Our funded debt was $25.0 million, reflecting the cost of purchasing 66% of Edelman Financial Services' expansion activities in 2009 and 50.1% of Global Financial Services in 2010. We have the ability to make additional acquisitions which would further fuel growth.

■ We have a remaining balance of $73.1 million owed to us relating to the sale of Salient Partners, L.P. and Endowment Advisers, L.P., the manager of The Endowment Fund, the largest SEC-registered fund of hedge funds product for retail investors. We receive over $12 million a year from that note, the bulk of which is not part of our net income, since the sale was reported in 2008 as a gain. The Endowment Fund's assets continue to exceed $5 billion and the note's cash coverage is excellent.

■ We have instituted cost savings in a variety of areas, including variable expense, integration of several support departments, and the use of technology to reduce operating expense. Those savings should exceed $3.7 million in 2011 and $4.8 million next year. To be clear, there are places where we are growing and costs are growing. Thus, these reductions are savings from levels that would have been higher.

The name change to The Edelman Financial Group will enable us to fully capitalize on the Edelman brand.

In all, 2010 was a fine year for Sanders Morris Harris Group (soon to be The Edelman Financial Group, subject to shareholder approval). The same is true of the months since. The Company is cohesive, financially strong, and has a carefully honed business plan developed from strength. Thus, we are optimistic about our future.

One could dismiss that optimism as the expected bias of management. We think, however, it is an objective assessment of the outlook for Sanders Morris Harris Group/ The Edelman Financial Group. Our direction, business units, capital, and technology support a positive appraisal. Our greatest challenge will be execution.

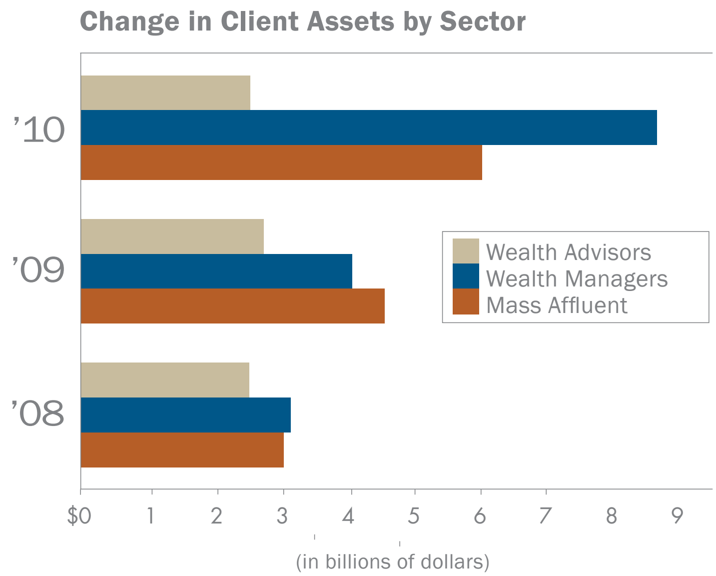
To that end, in the final analysis, companies are about people. That is why we feel so confident. Top quality people will make a company prosper, even in difficult times and even in industries with prospects less bright than ours. Our advisors, brokers and wealth managers — and our staff and department and business unit heads — are of the highest caliber. They are dedicated to our clients and to the firm. We are grateful for their support, and for yours.

The steadfast efforts of all of us will be devoted to making your investment in Sanders Morris Harris Group/The Edelman Financial Group a highly profitable one. We'll work hard to make it so.

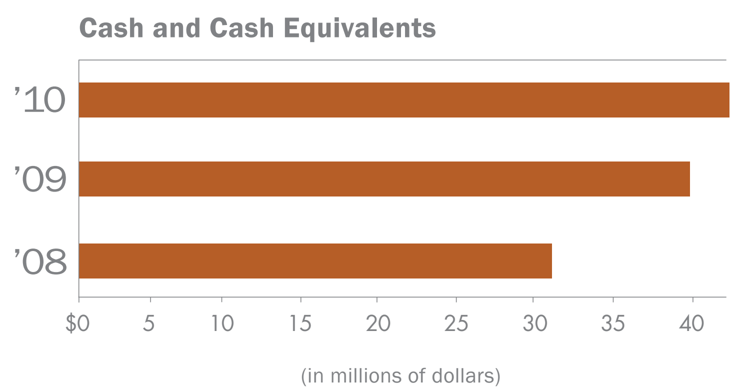
2010

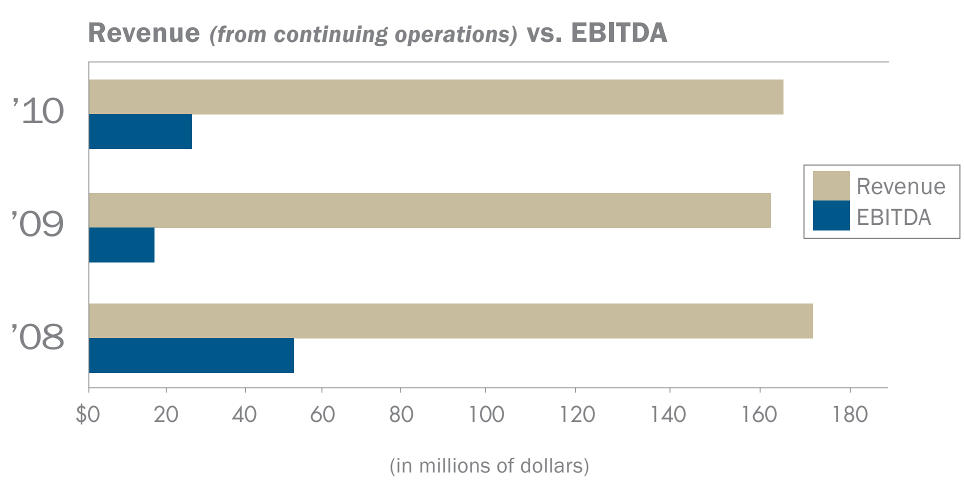
Financial Highlights

2010 Financial Highlights



The Company's balance sheet continues to be strong, providing us with the ability to make additional acquisitions and fuel further growth.





2011

Looking into 2011

Looking into 2011

In 2010, we enjoyed the initial benefits that resulted from the steps we took to become a wealth and asset management company. We continue with our focus on expanding our profitability in several coordinated ways:

■ The new Edelman Financial Services offices are gaining client assets as planned. The earliest of them — in metropolitan New York — should be reaching profitability in the months immediately ahead.

■ Others will use the underlying technology of the Edelman Managed Asset Program, with portfolio and pricing modifications reflecting the different needs of the clients of other of the Company's divisions.

■ We have been successful to date in acquiring and integrating high quality wealth management practices. We will continue that initiative, while furthering discussions with additional candidates for affiliation.

■ The initial roll-out of a company-wide proprietary CRM program occurs in June, one which eventually will be used by the entire company, enabling us to better support both clients and staff.

SANDERS MORRIS HARRIS

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(mark one)

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

For the Fiscal Year Ended December 31, 2010

or

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

Commission File No. 000-30066

Sanders Morris Harris Group Inc.

(Exact name of registrant as specified in its charter)

Texas	**76-0583569**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
600 Travis, Suite 5800 **Houston, Texas**	**77002**
(Address of principal executive offices)	(Zip code)

(713) 224-3100

(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

None

Securities Registered Pursuant to Section 12(g) of the Act:

Common Stock, $0.01 Par Value

(Title of each class)

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

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

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. [X] Yes [ ] No

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

Indicate by check mark 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. [X]

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. Large accelerated filer [ ] Accelerated filer[X]

Non-accelerated filer [ ] Smaller reporting company [ ]

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

As of June 30, 2010, the aggregate market value of the shares of Common Stock held by nonaffiliates of the registrant was $88.6 million. For purposes of this computation, all executive officers, directors and 10% beneficial owners of the registrant were deemed to be affiliates. Such determination is not an admission that such officers, directors, and beneficial owners are, in fact, affiliates of the registrant.

As of March 1, 2011, the registrant had 29,283,419 outstanding shares of Common Stock, par value $0.01 per share.

DOCUMENTS INCORPORATED BY REFERENCE

Information in the Registrant's definitive Proxy Statement pertaining to the 2011 Annual Meeting of Shareholders (the "Proxy Statement") to be filed with the SEC is incorporated herein by reference into Part III of this Report.

SANDERS MORRIS HARRIS GROUP INC. AND SUBSIDIARIES
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PART I

Item 1. Business

Sanders Morris Harris Group Inc. ("SMHG" or the "the Company") is a wealth management company. Through our subsidiaries and affiliates, we provide wealth management services to a wide range of investors. Our businesses include asset wealth management activities, programs, and products to support our wealth managers. In addition, we offer a variety of trading, sales, and research services for institutional investors.

Our company was formed through the merger in January 2000 of Sanders Morris Mundy Inc., a Houston-based full-service investment bank, and Harris, Webb & Garrison, Inc., a Houston securities firm. In 2009 and 2010, we made substantial progress in the execution of our strategy to move away from capital markets operations and focus on wealth management. We believe we have in place the people, infrastructure, and brand recognition at each of our businesses, which combined with sufficient working capital, will enable us to leverage our operating platform to further increase our profitability and market share.

In December 2009, we completed a transaction pursuant to which we contributed our investment banking and certain of our institutional equity and fixed income trading operations (excluding The Juda Group and the Concept Capital division) to Madison Williams and Company, LLC, a new entity formed by a number of the managing directors of the investment banking group and two financial partners. We received a cash payment of $2.7 million and a note for $8.0 million as part of this transaction and retained a 17.5% interest in Madison Williams Capital LLC, subject to a purchase option in favor of the two financial partners for $4.0 million. We received notices of intent to exercise the options in December 2010. On February 11, 2011, one option was exercised for 30% of our 17.5% ownership in Madison Williams Capital, LLC in the amount of $1.2 million reducing our interest to 12.25%. The second option remains pending.

In March 2010, we entered into an agreement with the principals of the Concept Capital division ("Concept") of Sanders Morris Harris, Inc. ("SMH") pursuant to which we agreed to contribute certain of the assets, properties, and other rights pertaining to Concept, including the prime brokerage, research and capital markets, fund accounting and administration, and research library businesses, to Concept Capital Markets, LLC ("CCM") and Concept Capital Administration, LLC ("CCAdmin"), two new entities formed by the principals of Concept. The Washington Research Group of Concept was sold during the fourth quarter of 2010 prior to the spin-off of Concept. After the spin-off, SMH retains a 24% capital interest and a 43.48% profit interest in Concept Capital Holdings, LLC (the parent of CCM)("CCH") and a 43.48% member interest in CCAdmin. Current members of management of Concept hold the remaining interests in the new entities.

The Concept spin-off was substantially completed on December 31, 2010. In addition to the capital and profits interests in CCM and CCAdmin, SMH on (a) March 1, 2010, purchased from CCH, at its face value a note in the principal amount of $1.2 million and (b) on December 31, 2010, purchased from CCH a second note in a principal amount generally equal to 50% of the sum of cash and cash equivalents and net security positions of Concept at December 31, 2010.

As part of our business expansion strategy, on December 31, 2010, Sanders Morris Harris Group Inc. ("SMHG") acquired a 48.7% capital interest and a 50.1% profits interest in Global Financial Services, LLC ("GFS BD") and a 50.1% capital and profits interest in GFS Advisors, LLC, ("GFS IA") wealth management firms (collectively "Global"), based in Houston, Texas, pursuant to the terms of a Purchase Agreement dated as of November 26, 2010, among the Company and the prior owners of Global. The acquisition increases our assets under management by $4.1 billion, and complements the growth of SMHG's high net worth businesses, as Global's clients are largely international executives, their families and corporations.

Our Products and Services

Our firm is organized in three major client sectors.

<u>*Mass Affluent*</u>

The Edelman Financial Center, LLC ("Edelman"), which owns Edelman Financial Services, LLC ("EFS"), is our largest subsidiary. SMHG owns 76% of Edelman. It is managed by our President, Ric Edelman. Although, more than 1,000 clients have invested more than $1 million with EFS, the business is centered on serving the mass affluent household; which we define as households with $50,000 to $1 million in investable assets. The average household account at EFS has client assets of $418,000. The core of the Edelman experience is personal financial planning and advice. Most investments are managed in the Edelman Managed Asset Program ("EMAP"). Through EMAP, investors get a professionally designed investment portfolio that provides a broad array of asset classes and market sectors — far greater diversification than they could normally obtain on their own. EMAP also offers dynamic security selection, strategic rebalancing, and an array of state-of-the-art client services, all for a single, fully disclosed annual fee, calculated as a percentage of client assets under management. Nearly 12,000 investors have placed $5.5 billion in EMAP, making it one of the largest and fastest-growing investment management programs in the nation.

The Ric Edelman Show provides listeners with comprehensive, educational financial advice — how to buy a home, pay for college, prepare for retirement, care for elders, get out of debt, and invest appropriately for their situation. The show is heard on more than three dozen radio stations, potentially reaching more than 90 million households.

In 2009 and 2010, Ric Edelman was recognized by *Barron's* as the No. 1 Independent Advisor in the country. Through his best-selling books, nationally syndicated radio program, monthly newsletter, seminars, media appearances and websites, he has positively impacted the lives of millions of Americans.

Ric Edelman is also a #1 *New York Times* bestselling author. His books on personal finance include *Ordinary People, Extraordinary Wealth* ; *The New Rules of Money; Discover the Wealth Within You; What You Need To Do Now; The Lies About Money, Rescue Your Money;* and his newest book, the fourth edition of the personal finance classic, *The Truth About Money* . Collectively, more than 1 million copies of Ric's books are in print and have been translated into several languages. Ric also publishes a monthly newsletter and offers a comprehensive free financial education website at RicEdelman.com.

In all, EFS manages approximately $6.0 billion in client assets for more than 14,000 families. Its legacy business is in the Washington, D.C. metropolitan area, with 24 financial planners in three offices, predominantly in its Fairfax, Virginia headquarters. These offices have approximately 10,000 clients with $4.5 billion in client assets, and recorded revenue of $55.5 million in 2010, up 127% since 2005. It earned $15.8 million in 2010.

EFS opened its first six offices outside the Washington D.C. area in September, 2009, located in the New York City metropolitan area. Each office is designed to accommodate one to three financial planners plus support staff. A new office has an expected cash cost of approximately $250,000 and cash burn of approximately $500,000 before becoming cash flow positive, which is estimated to occur between the 12th and 18th month of operation. In 2010, EFS opened an additional office in New York City, plus four offices in Washington D.C. Metro, two offices in Chicago and one office in South Florida.

EFS also has small direct response and outside advisor departments. Between them, they handle more than 3,000 clients who have nearly $1.0 billion invested with the firm and recorded revenue of $13.6 million in 2010.

<u>*High Net Worth*</u>

Our high net worth business provides investment advisory, wealth and investment management, asset management and financial planning to high net worth and mass affluent individuals and institutions. We define high net worth clients as individuals who have in excess of $1 million in investable assets.

Each of our high net worth units generally focuses on a different portion of the wealth management business in terms of client type and location, asset and product type, and distribution channel. These business units are generally operated as individual businesses that market their products under our or their own brand name, with certain products offered through multiple external and internal distribution channels. Administrative and back office functions for most of these units are provided by the parent company. In addition, one or more of our executive officers serve on the board of directors or management committee of each of these business units.

Our high net worth business primarily earns revenue by charging fees for managing the investment assets of clients. Fees are typically calculated as a percentage of the value of assets under management and vary with the type of account managed, the asset manager, and the account size. We believe an asset-based fee structure helps align our interests with those of our clients, particularly as compared to a commission-based fee structure, which is based on the number and value of securities trades executed. Our wealth management business may also earn performance fees if the investment performance of the assets in the account meets or exceeds a specified benchmark during a measurement period. We also generate a substantial portion of revenue from a traditional, commission-based structure where we earn commissions on client purchase and sale transactions.

At December 31, 2010, our high net worth subsidiaries and affiliates managed approximately $11.2 billion in client assets. Our high net worth revenue in 2010 was $52.2 million and pre-tax income from continuing operations was $18.4 million.

We have a number of consolidated affiliates in which we own an interest ranging from 48.7% to 100%. The larger of these are:

Sanders Morris Harris Inc. Sanders Morris Harris Inc. ("SMH"), member Financial Industry Regulatory Authority ("FINRA")/Securities Investor Protection Corporation ("SIPC"), headquartered in Houston, Texas, provides wealth management services directly through its private client business and its affiliation with independent contractors who are members of the SMH Partners program. Its financial advisors (both internal and affiliated through SMH Partners) serve high net worth clients, many of whom have long-standing relationships with SMH. As a full service firm, SMH offers its clients wealth management financial advice relating to equity securities, bonds, private placements, mutual funds, defined contribution plans, wrap-fee programs, money market funds, insurance products, and tax, trust, and estate advice. At December 31, 2010, SMH managed $3.7 billion in client assets in those channels. We own 100% of SMH.

Kissinger Financial Services. Kissinger Financial Services ("Kissinger"), a division of SMH based in Hunt Valley, Maryland, provides financial planning and investment management services to high net worth and mass affluent individuals. Kissinger derives revenue from fees charged to clients for the preparation of financial plans and for monitoring services and earns commissions and fees from investment and insurance products sold to clients. At December 31, 2010, Kissinger managed approximately $365.9 million in client assets. SMH owns 100% of Kissinger.

The Rikoon Group, LLC. The Rikoon Group, LLC ("Rikoon"), based in Santa Fe, New Mexico, provides wealth management services to high net worth individuals including financial and estate planning, investment management services, wealth education, and family retreats. Rikoon operates nationally with fee only investment counsel and also offers comprehensive family office services. At December 31, 2010, Rikoon managed approximately $417.4 million in client assets. We own 75% of Rikoon.

Leonetti & Associates, LLC. Leonetti & Associates, LLC ("Leonetti"), a registered investment advisor based in Buffalo Grove, Illinois, provides fee-based investment advice for individuals and small businesses. Leonetti provides investment management and financial planning services to enhance client portfolios and help them reach their financial goals. At December 31, 2010, Leonetti managed approximately $449.0 million in client assets. We own 50.1% of Leonetti.

Miller-Green Financial Services, Inc. Miller-Green Financial Services, Inc. ("Miller-Green"), a registered investment advisor based in The Woodlands, Texas, provides financial, investment, retirement, and/or estate planning services to individuals and families. It does extensive pre-retirement planning for a variety of clients. At December 31, 2010, Miller-Green managed approximately $292.7 million in client assets. We own 100% of Miller-Green.

Investor Financial Solutions, LLC. Investor Financial Solutions, LLC ("IFS") doing business as Investor Solutions Group of California, a registered investment advisor located in Huntington Beach, California, provides financial, investment, retirement, and/or estate planning services to individuals and families and was acquired January 1, 2010. It does extensive pre-retirement planning for a variety of clients. At December 31, 2010, IFS managed approximately $111.4 million in client assets. We own 51% of IFS.

Global Financial Services, LLC and GFS Advisors, LLC. Global Financial Services, LLC, a registered broker-dealer located in Houston, Texas, ("GFS BD") and GFS Advisors, LLC, a registered investment advisor also located in Houston, Texas ("GFS IA"), (collectively, "Global") serve high net worth clients residing in Mexico, Central and South America, many of whom have long-standing relationships with Global and was acquired December 31, 2010. As a full service firm, Global offers its clients wealth management financial advice relating to equity securities and options, bonds, currencies, mutual funds, money market funds and other securities. At December 31, 2010, Global managed $4.1 billion in client assets in those channels. We have a 48.7% equity interest and a 50.1% profits interests in GFS BD and a 50.1% equity and profits interest in GFS IA.

The Dickenson Group, LLC. The Dickenson Group, LLC ("Dickenson"), based in Solon, Ohio, has extensive expertise in insurance planning for individuals, families, and businesses as well as employee benefits communications and estate planning. It serves a number of corporations, practices, and individuals. We own 50.1% of Dickenson.

SMH Capital Advisors, Inc. SMH Capital Advisors, Inc. ("SMH Capital Advisors"), a registered investment advisor located in Fort Worth, Texas, provides investment management services primarily related to high-yield fixed income securities. This business is also known by its previous name of Cummer/Moyers. At December 31, 2010, SMH Capital Advisors managed approximately $1.7 billion in client assets. We own 100% of SMH Capital Advisors.

Select Sports Group Holdings, LLC. Select Sports Group Holdings, LLC, ("SSG") and its affiliates, based in Houston, Texas, provide sports representation and management services to professional athletes, principally professional football players, in contract negotiation, marketing and endorsements, public relations, legal counseling, and related areas. SSG receives fees from its athlete clients for the representation and management services provided. Our SSG clients have access to our investment programs in the areas of stocks, bonds, private equity, and specialized investment vehicles. Additionally, we provide a deal-screening program that reviews the numerous investment opportunities offered to professional athletes. We own 50.5% of SSG.

Additionally, SMH has organized 20 proprietary funds for the purpose of investing primarily in equity or equity-linked securities, interest-bearing debt securities, and debt securities convertible into common stock. These funds invest primarily in small to mid-capitalization companies, both public and private, that we believe are either significantly undervalued relative to their growth potential or that have substantial prospects for capital appreciation. Companies in which the funds invest represent a number of industries, including life sciences, energy, technology, and industrial services. We account for our interests in the management companies of these funds using the equity method, which approximates fair value. Our direct investments in the proprietary funds are accounted for at fair value. At December 31, 2010, the 17 remaining proprietary funds and their related investment companies that have not been liquidated managed approximately $384.0 million in assets under management and committed capital.

Institutional Services

Our institutional businesses provide institutional brokerage, fixed income brokerage, and prime brokerage services to institutional customers.

Institutional Equity. Our institutional clients include a broad array of institutions throughout North America, Europe, and Asia, including banks, retirement funds, mutual funds, endowments, investment advisors, and insurance companies. Our institutional equity strategy is to provide broad based sales and trading services, together with equity research coverage focused on companies concentrated on technology. We provide our institutional clients with execution and trading services in both exchange-listed equity securities and equity securities quoted on Nasdaq. Commissions are charged on all institutional securities transactions based on rates formulated by us. We also distribute securities which we underwrite to those institutional clients. We have institutional equity operations in Los Angeles and New York.

Concept Capital. The Concept Capital division of SMH ("Concept"), based in New York, provides prime brokerage services, research and capital markets trading, fund accounting and administration. We earned commission income on the securities transactions that we processed, interest income from arranging financing for hedge funds on the platform, and fees for providing various administrative services.

Concept has asset management agreements with a number of individual third party asset managers to manage a portion of the Company's assets. The Company shares in the profits or losses of these accounts and receives the commissions generated in them. The accounts are designed to diversify the aggregate risks, thus limiting potential losses or gains. Most of the accounts have escrow deposits held with a related clearing broker to insulate the Company from trading losses. We have procedures in place to monitor trading volume to ensure that in the event that any escrow deposits are depleted by a manager, activity is suspended.

In 2010, revenue from our institutional services business was $34.9 million and the pre-tax loss from continuing operations was $2.4 million. As noted above, we spun-off Concept into a stand-alone operation in which we will retain a noncontrolling interest as of December 31, 2010.

Industry Trends

We believe that we are well positioned to capitalize on a number of trends in the financial services industry, including:

- consolidation among firms offering financial products and services;
- continued and substantial growth in the high net worth and mass affluent markets;
- increasing acceptance of alternative investments by many high net worth, mass affluent, and institutional investors; and
- increased demand by investors for unbiased advice.

Our Strengths

The ongoing consolidation trend in the financial services industry has provided us access to many highly skilled professionals who have chosen to be part of a smaller yet sophisticated firm that has flexibility and preserves an entrepreneurial environment when providing financial services to clients. We attribute our success and distinctiveness not only to our highly skilled professionals but also to the following strengths:

- *Focus on Growing High Net Worth and Mass Affluent Markets.* We offer financial products and services designed to benefit both high net worth and mass affluent individuals. We believe that there is a particularly significant opportunity in providing products and services to the large and growing mass affluent market.
- *Highly Regarded Distribution Network and Investment Managers.* Our wealth management business includes SMH, EFS, SMH Capital Advisors, GFS, Kissinger, Rikoon, Dickenson, Leonetti, and Miller-Green, each of which benefits from a sound regional reputation. Moreover, our wealth advisors and asset managers include Ric Edelman, the founder of EFS and our largest shareholder, named to *Barron's* 100 Top Financial Advisors seven times (2004 - 2010), SMH Capital Advisors, a No. 1 ranked firm in 2005 and 2006 by Nelson's *World's Best Money Managers*, and Don Sanders, our Vice Chairman, who has more than 45 years of investment experience and is well-known and regarded in the Southwest.
- *Regional and Industry Focus.* We are a full-service regional financial services company based in Texas with 62 offices in 25 states and the District of Columbia and have achieved a strong brand recognition and sound reputation in the Southwest. Our presence in Texas allows us to focus our investment and financial advisory efforts on industries that have established markets in Texas and the Southwest, including energy, health care, environmental, technology, financial and business services, retail and consumer products, and media and communications. We believe that our focus on these industries has allowed us to develop a level of industry expertise that distinguishes us from many of our competitors.
- *Alignment of Interests.* Where suitable and permissible, we and members of our executive management frequently invest in the same investment opportunities as our clients, which creates a financial identity of interest and trust among our senior management, our clients, and us. We believe that by creating these wealth partnerships with our clients, we and our executives solidify our client relationships by validating the quality of the products and services that we offer. We also believe that our unbiased offering of a broad range of both proprietary and external investment products and our increasing use of an asset-based fee structure further align our interests with those of our wealth management clients.
- *Proven Management Team.* Our executive management averages more than 30 years of experience in the financial services industry and provides senior level management to every aspect of our business. Our executive management is supported by a core team of professionals who also have significant experience in the financial services industry. Their collective experience has resulted in a large network of both leaders of corporations and institutions and affluent investors with whom our executive management has developed extensive relationships.

We strengthen these relationships further by providing our clients personalized service, senior level attention, and access to other areas of our business.

Our Strategy

We believe there is an uncommon opportunity for a high quality wealth management firm that can tailor its product and service offerings to fit the needs of its individual, corporate, and institutional clients. Further, we believe we have put in place the people, infrastructure, and brand recognition at each of our businesses, which, combined with sufficient working capital, will enable us to leverage our operating platform to further increase our profitability and market share. Specifically, we intend to:

- *Capitalize on Growth of Our Target Markets by Expanding Our Wealth Management Business.* We intend to take advantage of favorable demographic trends to continue to expand our wealth management business by:

  - continuing to gather client assets through internal growth, expansion of external distribution channels, and acquisitions;
  - continuing to add additional experienced and productive wealth managers and wealth advisors;
  - marketing the skills of our wealth management professionals to our other business areas; and
  - continuing to develop, market, and invest in our proprietary funds.

  We have increased our client assets and expanded our product offerings through the acquisitions of Edelman in 2005, Rikoon in 2007, Leonetti and Miller-Green in 2008, and IFS and GFS in 2010. At December 31, 2010, EFS's client assets were $6.0 billion, Rikoon's client assets were $417.4 million, Leonetti's client assets were $449.0 million, Miller-Green's client assets were $292.7 million, IFS' client assets were $111.4 million and GFS' client assets were $4.1 billion.

- *Supplement Internal Growth with Strategic Acquisitions.* We plan to actively pursue opportunities to acquire all or a significant portion of other complementary wealth management businesses to gain access to additional proprietary products to offer our high net worth, mass affluent, and institutional clients, to gain access to new clients, to increase our assets under management or advisement, and to expand our geographic base. We believe that attractive acquisition opportunities exist, particularly among smaller, specialized regional financial services firms that want to affiliate with a larger company while still retaining their identity and entrepreneurial culture. Since 2000, we have acquired or gained control of 15 significant firms with products and services that we believe complement or expand our client base and the services and products that we provide. In addition, we believe that the ongoing consolidation trend in the financial services industry will allow us to continue to hire proven financial professionals who prefer the culture and opportunities inherent in an innovative regional firm such as ours.

Marketing

While we believe cross-selling opportunities exist among our various businesses based on the relationships developed by the individual companies, each major subsidiary has its own branding identity subject to an overall Sanders Morris Harris Group umbrella.

SMH markets through its 41 offices and through 43 offices of independent registered representatives who are affiliated with SMH through SMH Partners. SMH targets its client groups through financial advisor relationships, mailings, telephone calls, in-person presentations, and firm-sponsored workshops. Due to the nature of its business, its regional name recognition, and the reputation of its management, business is obtained through referrals from existing clients, corporate relationships, investment bankers, or initiated directly by the client, as well as through senior level calling programs.

EFS conducts its marketing efforts through media channels designed to educate individuals on the subject of personal finance. Ric Edelman hosts a nationally syndicated weekly radio program in the Washington, D.C. area and in 36 other markets. Ric Edelman also publishes a monthly newsletter, and is the author of seven books plus video and audio educational programs designed to help people achieve their financial goals.

SMH Capital Advisors focuses its marketing and business development efforts on specific client groups through consultants, mailings, telephone calls, and multi-media client presentations. Kissinger conducts its marketing and business development primarily through referrals from existing clients and other professionals (i.e., accountants and attorneys) and sponsored or co-sponsored workshops and seminars. The seminars are sponsored by Kissinger, local employers, government agencies, and local colleges and universities.

Existing and potential clients can also gain a variety of information about our firm and the services we provide through the Internet websites for our various businesses. The information on those websites is not a part of this Annual Report on Form 10-K.

Competition

The wealth management and institutional services businesses are highly competitive. The principal competitive factors influencing our businesses are:

- expertise and quality of the professional staff;
- reputation in the marketplace;
- existing client relationships;
- ability to commit capital to client transactions;
- mix of market capabilities; and
- quality and price of our products and services.

We compete directly with many other national and regional full service financial services firms and, to a lesser extent, with discount brokers, investment banking firms, investment advisors, broker-dealer subsidiaries of major commercial bank holding companies, and other companies offering financial services in the U.S., globally, and through the Internet. We also compete for wealth management services with commercial banks, private trust companies, sponsors of mutual funds, insurance companies, financial planning firms, venture capital, private equity and hedge funds, and other wealth and asset managers. We believe that our principal competitive advantages include our regional and industry focus, focus on the growing high net worth and mass affluent markets, highly regarded distribution network and investment managers, ability to cross-sell our products, creating wealth partnerships with our clients, and proven management team.

The financial services industry has become considerably more concentrated as many securities firms have either ceased operations or been acquired by or merged into other firms. Many of these larger firms have significantly greater financial and other resources than we do and can offer their customers more product offerings, lower pricing, broader research capabilities, access to international markets, and other products and services we do not offer, which may give these firms a competitive advantage over us.

During 2008 and 2009, many of our largest competitors were materially negatively affected by the global financial crisis. Certain of our larger competitors ceased to do business, while others merged, obtained substantial government assistance, and changed their business models and regulatory status, including becoming bank holding companies. It is likely that the companies that survive will remain competitors and that they will continue to have resources and product offerings that will continue to have a competitive impact on us. The markets were not as volatile in 2010.

As we seek to expand our wealth management business, we face competition in the pursuit of clients interested in our services, the recruitment and retention of wealth management professionals, and the identification and acquisition of other wealth management firms that can be integrated into our group.

Government Regulation

The securities industry is one of the nation's most extensively regulated industries. The U.S. Securities and Exchange Commission ("SEC") is responsible for the administration of the federal securities laws and serves as a supervisory body over all national securities exchanges and associations. The regulation of broker-dealers has to a large extent been delegated by the federal securities laws to Self Regulatory Organizations ("SROs"). These SROs include, among others, all the national securities and commodities exchanges and the FINRA. Subject to approval by the SEC and certain other regulatory authorities, SROs adopt rules that govern the industry and conduct periodic examinations of the operations of our broker-dealer subsidiary. SMH, one of our broker-dealer subsidiaries is registered in all 50 states, Puerto Rico and is also subject to regulation under the laws of these jurisdictions. GFS BD is registered in 16 states.

As registered broker-dealers, SMH and GFS BD, our brokerage subsidiaries, are subject to certain net capital requirements of Rule 15c3-1 under the Exchange Act. The net capital rules, which specify minimum net capital requirements for registered broker-dealers, are designed to measure the financial soundness and liquidity of broker-dealers. Failure to maintain the required net capital may subject a firm to suspension or revocation of registration by the SEC and suspension or expulsion by other regulatory bodies, and ultimately may require its liquidation. Further, a decline in a broker-dealer's net capital below certain "early warning levels", even though above minimum capital requirements, could cause material adverse consequences to the broker-dealer.

As registered investment advisors under the Investment Advisers Act of 1940, SMH, SMH Capital Advisors, EFS, Rikoon, Leonetti, Miller-Green, Global IA, and certain other subsidiaries are subject to the requirements of regulations under both the Investment Advisers Act and certain state securities laws and regulations. Such requirements relate to, among other things, (1) limitations on the ability of investment advisors to charge performance-based or non-refundable fees to clients, (2) record-keeping and reporting requirements, (3) disclosure requirements, (4) limitations on principal transactions between an advisor or its affiliates and advisory clients, and (5) general anti-fraud prohibitions.

Additional legislation, changes in rules promulgated by the SEC and SROs, or changes in the interpretation or enforcement of existing laws and rules may directly effect the mode of our operation and profitability.

Employees

At December 31, 2010, we had 529 employees. Of these, 21 are in institutional sales and trading, 11 are in securities analysis and research, 409 are in investment management, 32 are in systems development, 9 are in sports representation and management, and 47 are in accounting, administration, legal, compliance, and support operations. None of our employees are subject to collective bargaining agreements. We believe our relations with our employees generally are good.

Available Information

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as well as proxy statements, are made available free of charge on our internet website, www.smhgroup.com, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

Additionally, we make available on our website and in print upon request of any shareholder to our Chief Financial Officer, a number of our corporate governance documents. These include: the Audit Committee charter, the Nominating and Corporate Governance Committee charter, and the Business Ethics Policy for Employees. Within the time period required by the SEC and the Nasdaq Stock Market, we will post on our website any modifications to any of the available documents. The information on our website is not incorporated by reference into this report.

Our Chief Financial Officer can be contacted at Sanders Morris Harris Group Inc., 600 Travis, Suite 5800, Houston, Texas 77002, telephone: (713) 224-3100.

Item 1A. Risk Factors

We face a variety of risks that are substantial and inherent in our businesses, including market, liquidity, credit, operational, legal, and regulatory risks. In addition to the other information included in this Form 10-K, the following risk factors should be considered in evaluating our business and future prospects. The risk factors described below represent what we believe are the most significant risk factors with respect to us and our business. In assessing the risks relating to our business, investors should also read the other information included in this Form 10-K, including the Consolidated Financial Statements and Notes thereto and "Item 7. – Management's Discussion and Analysis of Financial Condition and Results of Operations – *Special Cautionary Notice Regarding Forward-Looking Statements* ."

Risks Relating to the Nature of Our Business

Recent new legislation and new and pending regulation may significantly affect our business.

Recent market and economic conditions have led to new legislation and regulation affecting the financial services industry, both in the United States and abroad. These new measures include limitations on the types of activities in which certain financial institutions may engage as well as more comprehensive regulation of the over-the-counter derivatives market.

These legislative and regulatory initiatives will affect not only us, but also our competitors and certain of our customers. These changes could eventually have an effect on our revenue, limit our ability to pursue certain business opportunities, impact the value of assets that we hold, require us to change certain business practices, impose additional costs on us, and otherwise adversely affect our business. Accordingly, we cannot provide assurance that the new legislation and regulation will not eventually have an adverse effect on our business, results of operations, cash flows and financial conditions.

If we do not comply with the new, or existing, legislation and regulations that apply to our operations, we may be subject to fines, penalties or material restrictions on our business in the jurisdiction where any violations occur. In recent years, regulatory oversight and enforcement have increased substantially, imposing additional costs and taxes and increasing the potential risks associated with our operations. As this regulatory trend continues, it could adversely affect our operations and, in turn, our financial results.

Difficult market conditions have adversely affected the global financial markets and the financial services industry and could adversely affect us.

The financial services industry experienced unprecedented change and volatility in 2008 and 2009. Since 2008, several large securities, insurance, and financial firms in the U. S. and elsewhere failed outright or were acquired by other financial institutions, often in distressed sales. Others received substantial government assistance and in certain cases continue to operate with substantial government assistance and oversight. Concern about the stability of financial markets and the strength of counterparties caused many traditional sources of credit, such as banks, securities firms, and insurers, as well as institutional and private investors, to reduce or cease providing funding to borrowers. Although financial markets stabilized during 2009 and improved in 2010, reflecting substantial efforts by the U.S. and other governments to restore confidence and recapitalize major financial institutions, but there can be no assurance that these conditions will continue in the near or long term. If they do not, our results of operations may be adversely affected.

The economic uncertainties and changes affecting the financial industry may cause us to face some or all of the following risks:

- We may experience losses in securities trading activities or as a result of write-downs in the value of securities that we own as a result of deteriorations in the businesses or creditworthiness of the issuers of such securities.

- Declines in stock prices and trading volumes could result in declines in commission income, margin interest revenue, asset management and service fees that could adversely affect our profitability.

- Our plans for expansion of our client base or the services we provide may be delayed or impaired.

- As an introducing broker to clearing firms, we are responsible to the clearing firms and could be held liable for the defaults of our customers, including losses incurred as the result of a customer's failure to meet a margin call. Although we review credit exposure to specific customers, default risk may arise from events or circumstances that are difficult to detect or foresee. When we allow customers to purchase securities on margin, we are subject to risks inherent in extending credit. This risk increases when a market is rapidly declining and the value of the collateral held falls below the amount of a customer's indebtedness. If a customer's account is liquidated as the result of a margin call, we are liable to our clearing firm for any deficiency.

- Competition in our sales and trading businesses could intensify as a result of the increasing pressures on financial services companies and larger firms competing for transactions and business that historically would have been too small for them to consider.

- Our industry could face increased regulation as a result of legislative or regulatory initiatives, and the responsibilities of the SEC and other federal agencies may be reallocated. Compliance with such regulation may increase our costs and limit our ability to pursue business opportunities.

- New or increased taxes on compensation payments such as bonuses or on balance sheet items may adversely affect our profits.

If one or more of the foregoing risks occurs, we could experience an adverse effect, which may be material, on our business, financial condition, and results of operations.

Lack of sufficient liquidity or access to capital could impair our business and financial condition.

Historically, we have satisfied our need for funding from internally generated funds, sales of shares of our common stock to our employees and to the public, and a credit facility with a financial institution. As a result of the low level of leverage that we have traditionally employed in our business model, we have not been forced to significantly curtail our business activities as a result of lack of credit sources and we believe that our capital resources are currently sufficient to continue to support our current business activities. In the event existing financial resources did not satisfy our needs, we might have to seek additional outside financing. The availability of outside financing will depend on a variety of factors, such as our financial condition and results of operations, the availability of acceptable collateral, market conditions, the general availability of credit, the volume of trading activities, and the overall availability of credit to the financial services industry.

The soundness of other financial institutions could adversely affect us.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to many different counterparties and we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, could lead to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the receivable due us. Any such losses could be material and could materially and adversely affect our business, financial condition, and results of operations.

The wealth management and institutional services industries are highly competitive. If we are not able to compete successfully against current and future competitors, our business, financial condition, and results of operations will be adversely affected .

The financial services business is highly competitive, and we expect it to remain so. The principal competitive factors influencing our wealth management and institutional services businesses are:

- the experience and quality of the professional staff;

- reputation in the marketplace;

- investment performance;

- existing client relationships; and

- mix of market capabilities.

We compete directly with many other national and regional full service financial services firms and, to a lesser extent, with discount brokers, investment banking firms, investment advisors, broker-dealer subsidiaries of major commercial bank holding companies, and other companies offering financial services in the U.S., globally, and through the Internet. We also compete for wealth management services with commercial banks, private trust companies, sponsors of mutual funds, insurance companies, financial planning firms, venture capital, private equity and hedge funds, and other wealth managers.

We are a relatively small firm with 529 employees as of December 31, 2010, and total revenue of $168.8 million in 2010. Many of our competitors have more personnel and financial resources than we do. Larger competitors are able to advertise their products and services on a national or regional basis and may have a greater number and variety of products and distribution outlets for their products, larger customer bases, and greater name recognition. These larger and better capitalized competitors may be better able to respond to changes in the wealth management and institutional services industries, to finance acquisitions, to fund internal growth, and to compete for market share generally. In addition to competition from firms currently in the securities business, there has been increasing competition from other firms offering financial services, including automated trading and other services based on technological innovations.

Increased pressure created by current or future competitors, individually or collectively, could materially and adversely affect our business and results of operations. Increased competition may result in reduced revenue and loss of market share. Further, as a strategic response to changes in the competitive environment, we may from time to time make certain pricing, service, or marketing decisions or acquisitions that also could materially and adversely affect our business and results of operations. In addition, new technologies and the expansion of existing technologies may increase competitive pressures on us. We may not be able to compete successfully against current and future competitors.

Competition also extends to the hiring and retention of highly skilled employees. A competitor may be successful in hiring away an employee or group of employees, which may result in our losing business formerly serviced by them. Such competition can also raise our costs of hiring and retaining the key employees we need to effectively execute our business plan.

If we are unable to compete effectively, our business, financial condition, and results of operations will be adversely affected.

We may experience reduced revenue due to downturns or disruptions in the securities markets that reduce market volumes, securities prices, and liquidity, which can also cause counterparties to fail to perform .

The securities business is, by its nature, subject to significant risks, particularly in volatile or illiquid markets, including:

- the risk of trading losses;
- losses resulting from the ownership or underwriting of securities;
- counterparty failure to meet commitments;
- customer, employee, or issuer fraud;
- errors and misconduct;
- failure in connection with the processing of securities transactions; and
- customer litigation.

We are a wealth management and institutional services firm and changes in the financial markets or economic conditions in the U.S. and elsewhere in the world could adversely affect our business in many ways. The securities business is directly affected by many factors, including market, economic, and political conditions; broad trends in business and finance; investor sentiment and confidence in the financial markets; legislation and regulation affecting the national and international business and financial communities; currency values; inflation; the availability and cost of short-term and long-term funding and capital; the credit capacity or perceived creditworthiness of the securities industry in the marketplace; the level and volatility of equity prices and interest rates; and technological changes. These and other factors can contribute to lower price levels for securities and illiquid markets.

A market downturn could result in lower prices for securities, which may result in reduced management fees calculated as a percentage of assets managed. A market downturn could also lead to a decline in the volume of transactions that we execute for our customers and, therefore, to a decline in the revenue we receive from commissions and spreads. Fluctuations in market activity could impact the flow of investment capital into or from assets under management and advisement and the way customers allocate capital among money market, equity, fixed income, or other investment alternatives, which could negatively impact our wealth management business. In periods of low volume or price levels, profitability is further adversely affected because certain of our expenses remain relatively fixed.

Sudden sharp declines in market values of securities can result in illiquid markets and the failure of counterparties to perform their obligations, which could make it difficult for us to sell securities, hedge securities positions, and invest funds under management. Market declines could also increase claims and litigation, including arbitration claims from customers.

We are also subject to risks inherent in extending credit to the extent our clearing brokers permit our customers to purchase securities on margin. The margin risk increases during rapidly declining markets when collateral values may fall below the amount our customer owes us. Any resulting losses could adversely affect our business, financial condition, and results of operations.

There are market, credit and counterparty, and liquidity risks associated with our market making, principal trading, merchant banking, and arbitrage activities. We may experience significant losses if the value of our marketable security positions deteriorates.

We conduct principal trading, market making, merchant banking, and arbitrage activities for our own account, which subjects our capital to significant risks. These activities often involve the purchase, sale, or short sale of securities as principal in markets that are characterized as relatively illiquid or that may be susceptible to rapid fluctuations in liquidity and price. Current unfavorable market conditions could limit our resale of purchased securities or the repurchase of securities sold short. These risks involve market, credit and counterparty, and liquidity risks, which could result in losses for us. Market risk relates to the risk of fluctuating values and the ability of third parties to whom we have extended credit to repay us. Credit and counterparty risks represent the potential loss due to a client or counterparty failing to perform its contractual obligations, such as delivery of securities or payment of funds. Liquidity risk relates to our inability to liquidate assets or redirect illiquid investments. In any period, we may experience losses as a result of price declines, lack of trading volume, or lack of liquidity.

In our merchant banking, wealth management, and other activities, we may have large concentrations in securities of, or commitments to, a single issuer or issuers engaged in a specific industry. These concentrations increase our exposure to market risks.

Our business depends on the services of our executive officers, senior management, and many other skilled professionals and may suffer if we lose the services of our executive officers, senior management, or other skilled professionals.

We depend on the continuing efforts of our executive officers and senior management. That dependence may be intensified by our decentralized operating strategy. If executive officers or members of senior management leave us, our business or prospects could be adversely affected until we attract and retain qualified replacements.

We derive a substantial portion of our revenue from the efforts of our financial services professionals. Therefore, our future success depends, in large part, on our ability to attract, recruit, and retain qualified financial services professionals. Demand for these professionals is high and their qualifications make them particularly mobile. These circumstances have led to escalating compensation packages in the industry. Up front payments, increased payouts, and guaranteed contracts have made recruiting these professionals more difficult and can lead to departures by current professionals. From time to time we have experienced, and we may in the future experience, losses of wealth management, sales and trading, and research professionals. Departures can also cause client defections due to close relationships between clients and the professionals. If we are unable to retain our key employees or attract, recruit, integrate, or retain other skilled professionals in the future, our business could suffer.

We have a number of investment advisor affiliates, including EFS, Rikoon, SMH Capital Advisors, Kissinger, Dickenson, Leonetti, Miller-Green, Global, and IFS which were founded by and are identified with specific individuals. The departure, death, or disability of any one of these individuals could result in the loss of clients and assets under management.

We generally do not have employment agreements with our senior executive officers or other professionals. We attempt to retain our employees with incentives such as the issuance of our stock subject to continued employment. These incentives, however, may be insufficient in light of increasing competition for experienced professionals in the securities industry, particularly if our stock price declines or fails to appreciate sufficiently to be a competitive source of a portion of a professional's compensation.

Litigation and potential securities laws liabilities may adversely affect our business.

Many aspects of our business involve substantial risks of liability, litigation, and arbitration, which could adversely affect us. As a normal part of our business, we are from time to time named as a defendant or co-defendant in civil litigation and arbitration proceedings and as a subject of regulatory investigations arising from our business activities as a financial services firm. Some of these proceedings involve claims for substantial amounts of damages, based on allegations such as misconduct by us or our failure to properly supervise our wealth management advisors, bad investment advice, unsuitable investment recommendations or excessive trading in a client's account by our wealth management advisors, materially false or misleading statements made in connection with securities offerings and other transactions, the advice we provide to participants in corporate transactions, and disputes over the terms and conditions of complex trading arrangements. The risks of liability, litigation, and arbitration often may be difficult to assess or quantify, and their existence and magnitude often remain unknown for substantial periods of time. In view of the inherent difficulty of predicting the outcome of legal and regulatory proceedings, particularly where the plaintiffs or regulatory authorities seek substantial or indeterminate damages or fines or where novel legal theories or a large number of parties are involved, we cannot state with confidence what the eventual outcome of currently pending matters will be or what the timing of the ultimate resolution of these matters will be. Depending on our results for a particular period, an adverse determination could have a material effect on quarterly or annual operating results in the period in which it is resolved. See "Item 3. – Legal Proceedings."

Poor investment performance, in either relative or absolute terms, may reduce the profitability of our wealth management business.

In 2010, our wealth management revenue was $125.3 million, accounting for 74.2% of our total revenue. We derive our revenue from this business primarily from management fees that are based on committed capital, assets under management or advisement, and incentive fees, which are earned if the return of our proprietary funds exceeds certain threshold returns. Our ability to maintain or increase assets under management or advisement is subject to a number of factors, including investors' perception of our past performance, in either relative or absolute terms, market or economic conditions, and competition from other fund managers.

Investment performance is one of the most important factors in retaining existing clients and competing for new wealth management business. Poor investment performance could reduce our revenue and impair our growth in a number of ways:

- existing clients may withdraw funds from our wealth management business in favor of better performing products;
- our incentive fees could decline or be eliminated entirely;
- asset-based advisory fees could decline as a result of a decrease in assets under management;
- our ability to attract funds from existing and new clients might diminish;
- firms with which we have business relationships may terminate their relationships with us; and

- our wealth managers and investment advisors may depart, whether to join a competitor or otherwise.

Even when market conditions are generally favorable, our investment performance may be adversely affected by the investment style of our wealth management and investment advisors and the particular investments that they make. To the extent our future investment performance is perceived to be poor in either relative or absolute terms, the revenue and profitability of our wealth management business will likely be reduced and our ability to attract new clients and funds will likely be impaired.

Our wealth management clients can terminate their relationships with us, reduce the aggregate assets under management or advisement, or shift their funds to other types of accounts with different rate structures for any number of reasons, including investment performance, changes in prevailing interest rates, inflation, changes in investment preferences of clients, changes in our reputation in the marketplace, changes in management or control of clients or third party distributors with whom we have relationships, loss of key investment management personnel or wealth advisors, and financial market performance.

We may experience substantial fluctuations in our operating results from period to period due to the nature of our business and therefore fail to meet profitability expectations.

Our operating results may fluctuate from quarter to quarter and from year to year due to a combination of factors. These factors include:

- levels of assets under our management;
- the number of institutional and retail brokerage transactions and the commissions we receive from those transactions;
- changes in the market valuations of investments held by proprietary investment funds that we organize and manage and of companies in which we have invested as a principal;
- the timing of recording of wealth management fees and special allocations of income, if any;
- the realization of profits and losses on principal investments;
- variations in expenditures for personnel, consulting, accounting, and legal expenses;
- expenses of establishing any new business units, including marketing and technology expenses; and
- changes in accounting principles.

We depend on proprietary and third party systems, so a systems failure could significantly disrupt our business. These and other operational risks may disrupt our business, result in regulatory action against us, or limit our growth.

Our business depends highly on our ability to process, on a daily basis, a large number of transactions across numerous and diverse markets, and the transactions we process have become increasingly complex. Consequently, we rely heavily on our communications and financial, accounting, and other data processing systems, including systems provided by our clearing brokers and service providers. We face operational risk arising from mistakes made in the confirmation or settlement of transactions or from transactions not being properly recorded, evaluated, or accounted.

If any of these systems do not operate properly or are disabled, we could suffer financial loss, a disruption of our business, liability to clients, regulatory intervention, or reputational damage. Any failure or interruption of our systems, the systems of our clearing brokers, or third party trading systems could cause delays or other problems in our securities trading activities, which could have a material adverse effect on our operating results. In addition, our clearing brokers provide our principal disaster recovery system. We cannot assure you that we or our clearing brokers will not suffer any systems failures or interruption, including ones caused by earthquake, fire, other natural disasters, power or telecommunications failure, act of God, act of war, terrorism, or otherwise, or that our or our clearing brokers' back-up procedures and capabilities in the event of any such failure or interruption will be adequate. The inability of our or our clearing brokers' systems to accommodate an increasing volume of transactions could also constrain our ability to expand our business.

Strategic investments or acquisitions may result in additional risks and uncertainties in our business.

We intend to grow our core businesses through both internal expansion and through strategic investments and acquisitions. To the extent we make strategic investments or acquisitions, we face numerous risks and uncertainties combining or integrating the relevant businesses and systems, including the need to combine accounting and data processing systems and management controls, and to integrate relationships with clients, vendors, and business partners. Acquisitions pose the risk that any business we acquire may lose clients or employees or could under-perform relative to expectations.

Our acquisition of Global expands are client base into Mexico and Central and South America. A political, economic, or financial disruption in these countries could adversely impact Global's business. In addition, Global is subject to U.S. laws relating to money laundering and doing business with certain individuals, groups, and countries, such as the USA PATRIOT Act, which place substantial responsibilities on us with respect to knowing our customers. While we have invested and continue to invest resources in training and compliance monitoring, the expended geographical diversity of our clients and customers, as well as the vendors and other third parties that we deal with, increases the risk that we may be found in violation of such rules and regulations and any such violation could subject us to significant penalties and adversely affect our reputation.

Growth of our business could result in increased costs.

We may incur significant expenses in connection with any expansion of our existing businesses or in connection with any strategic acquisitions and investments, if and to the extent they arise from time to time. Our overall profitability would be negatively affected if investments and expenses associated with such growth are not matched or exceeded by the revenue that is derived from such growth.

In the wealth management business, opening new offices involves recruiting and hiring the personnel necessary to staff the offices. Such personnel may be employed by competitors, and the retention of such individuals may require us to enter into guaranteed compensation contracts for a period following commencement of employment. The compensation terms provided for in such contracts may be fixed in whole or in part. Any guaranteed compensation expenses that cannot be adjusted based on the success or profitability of the offices could reduce our operating margins.

During 2009, we began to implement our plan to expand the EFS offices throughout the U.S. with the opening of six new offices in the New York City metropolitan area. The plan called for us to open an additional 12 new EFS offices during 2010, of which eight were opened, with an additional eleven offices to be opened in 2011. These expansion efforts have required and will continue to require increased investment in management personnel, facilities, and financial and management systems and controls, all of which, in the absence of sufficient corresponding revenue growth, would cause our operating margins to decline from current levels. In addition, we estimate that the cost of opening each new office requires expenditures of approximately $250,000.

Expansion also creates a need for additional compliance, documentation, risk management and internal control procedures, and often involves the hiring of additional personnel to monitor such procedures. To the extent such procedures are not adequate to appropriately monitor any new or expanded business, we could be exposed to a material loss or regulatory sanction.

We are a holding company and depend on our subsidiaries for dividends, distributions and other payments.

As a holding company, we may require dividends, distributions and other payments from our subsidiaries to fund payments on our obligations, including debt obligations. As a result, regulatory actions could impede access to funds that we need to make payments on obligations or dividend payments. In addition, because we hold equity interests in our subsidiaries, our rights as an equity holder to the assets of these subsidiaries are subordinated to any claims of the creditors of these subsidiaries. At December 31, 2010, none of our subsidiaries had any long term indebtedness to any third party.

Risks Related to Our Business

Our securities broker-dealer and investment advisor subsidiaries are subject to substantial regulation. If we fail to comply with applicable requirements, our business will be adversely affected.

Our businesses are subject to extensive regulation under both federal and state laws. SMH and GFS BD are registered as broker-dealers with the SEC and FINRA; SMH Capital Advisors, EFS, Rikoon, Leonetti, Miller-Green, and GFS IA are registered with the SEC as investment advisors. All of the professional agents employed by SSG are registered as certified contract advisors with the National Football League Players Association.

The SEC is the federal agency responsible for the administration of federal securities laws. In addition, self-regulatory organizations, principally FINRA and the securities exchanges, are actively involved in the regulation of broker-dealers. We are also subject to regulation by state securities commissions in those states in which we do business. The principal purpose of regulation and discipline of broker-dealers is the protection of clients and the securities markets rather than protection of creditors and shareholders of broker-dealers. Broker-dealers are subject to regulations that cover all aspects of the securities business, including sales methods, trade practices among broker-dealers, use and safekeeping of customers' funds and securities, capital structure of securities firms, record-keeping, and the conduct of directors, officers, and employees.

The SEC, FINRA, and state securities commissions may conduct administrative proceedings that can result in:

- censure, fines, or civil penalties;
- issuance of cease-and-desist orders;
- deregistration, suspension, or expulsion of a broker-dealer or investment advisor;
- suspension or disqualification of the broker-dealer's officers or employees;
- prohibition against engaging in certain lines of business; and
- other adverse consequences.

The imposition of any penalties or orders on us could have a material adverse effect on our business, financial condition, and results of operations. The investment banking and brokerage industries have recently come under scrutiny at both the state and federal levels, and the cost of compliance and the potential liability for non-compliance has increased as a result.

The regulatory environment in which we operate is also subject to change. Our business may be adversely affected as a result of new or revised legislation, or changes in rules promulgated by the SEC, FINRA, and other SRO's. We may also be adversely affected by changes in the interpretation or enforcement of existing laws and rules by the SEC and FINRA.

Our financial services businesses may be materially affected not only by regulations applicable to our subsidiaries as financial market intermediaries but also by regulations of general application. For example, the volume of our merchant banking and principal investment business in a given period could be affected by existing and proposed tax legislation, antitrust policy, and other governmental regulations and policies, (including the monetary policies of the Federal Reserve Board), as well as changes in interpretation or enforcement of existing laws and rules that affect the business and financial communities.

Our ability to comply with laws and regulations relating to our financial services businesses depends in large part upon maintaining a system to monitor compliance and our ability to attract and retain qualified compliance personnel. Although we believe we are in material compliance with all applicable laws and regulations, we may not be able to comply in the future. Any noncompliance could have a material adverse effect on our business, financial condition, and results of operations.

The business operations of SMH and GFS BD may face limitations due to net capital requirements.

As registered broker-dealers, SMH and GFS BD are subject to the net capital rules administered by the SEC and FINRA. These rules, which specify minimum net capital requirements for registered broker-dealers and FINRA members, are designed to assure that broker-dealers maintain adequate net capital in relation to their liabilities and the size of their customers' business. These requirements have the effect of requiring that a substantial portion of a broker-dealer's assets be kept in cash or highly liquid investments. Failure to maintain the required net capital may subject a firm to suspension or revocation of its registration by the SEC and suspension or expulsion by FINRA and other regulatory bodies. Compliance with these net capital rules could limit operations that require extensive capital, such as underwriting or trading activities.

These net capital rules could also restrict our ability to withdraw capital in situations where either SMH or GFS BD has more than the minimum required capital. We may be limited in our ability to pay dividends, implement our strategies, pay interest or repay principal on our debt, and redeem or repurchase our outstanding shares. In addition, a change in these net capital rules or new rules affecting the scope, coverage, calculation, or amount of the net capital requirements, or a significant operating loss or significant charge against net capital, could have similar effects.

Our exposure to legal liability is significant, and damages that we may be required to pay and the reputational harm that could result from legal or regulatory action against us could materially adversely affect our businesses.

We face significant legal risks in our businesses and, in recent years, the volume of claims and amount of damages sought in litigation and regulatory proceedings against financial institutions have been increasing. These risks include potential liability under securities or other laws for materially false or misleading statements made in connection with securities offerings and other transactions. We are also potentially subject to claims arising from disputes with employees. These risks often may be difficult to assess or quantify and their existence and magnitude often remain unknown for substantial periods of time. See Item 3 — "Legal Proceedings" for a further discussion of certain legal matters applicable to us.

We depend to a large extent on our reputation for integrity and high-caliber professional services to attract and retain clients and customers. As a result, if a client or customer is not satisfied with our services, it may be more damaging in our business than in other businesses. Our activities may subject us to the risk of significant legal liabilities to our clients and aggrieved third parties. As a result, we may incur significant legal and other expenses in defending against litigation and may be required to pay substantial damages for settlements and adverse judgments. Substantial legal liability or significant regulatory action against us could have a material adverse effect on our results of operations or cause significant reputational harm to us, which could seriously harm our business and prospects.

Regulatory inquiries and subpoenas or other requests for information or testimony in connection with litigation may require incurrence of significant expenses, including fees for legal representation and fees associated with document production. These costs may be incurred even if we are not a target of the inquiry or a party to litigation.

There have been a number of highly publicized cases involving fraud or other misconduct by employees in the financial services industry in recent years, and we run the risk that employee misconduct could occur at our company. For example, misconduct by employees could involve the improper use or disclosure of confidential information, which could result in regulatory sanctions and serious reputational or financial harm. It is not always possible to deter employee misconduct and the precautions we take to detect and prevent this activity may not be effective in all cases, and we may suffer significant reputational harm for any misconduct by our employees.

Risks Relating to Owning Our Common Stock

The market price of our common stock may be volatile, which could adversely affect the value of your shares . Our common stock may trade at prices below your purchase price.

The market price of our common stock may be subject to significant fluctuations in response to many factors, including:

- our perceived prospects;
- the perceived prospects of the securities and financial services industries in general;

- differences between our actual financial results and those expected by investors and analysts;
- changes in securities analysts' recommendations or projections;
- our announcements of significant contracts, milestones, or acquisitions;
- sales of substantial amounts of our common stock;
- changes in general economic or market conditions, including conditions in the securities brokerage and investment banking markets;
- changing conditions in the industry of one of our major client groups; and
- fluctuations in stock market price and volume unrelated to us or our operating performance.

Many of these factors are beyond our control. Any one of the factors noted herein could have an adverse effect on the value of our common stock. Our common stock may trade at prices below your purchase price.

Because our board of directors can issue common stock without shareholder approval, you could experience substantial dilution.

Our board of directors has the authority to issue up to 100,000,000 shares of common stock, to issue options and warrants to purchase shares of our common stock, and to issue debt convertible into common stock without shareholder approval in certain circumstances. Future issuances of additional shares of our common stock could be at values substantially below the price at which you may purchase our stock and, therefore, could represent substantial dilution. In addition, our board of directors could issue large blocks of our common stock to fend off unwanted tender offers or hostile takeovers without shareholder approval.

Our ability to issue "blank check" preferred stock without approval by the holders of our common stock could adversely affect your rights as a common shareholder and could be used as an anti-takeover device.

Our charter allows our board of directors to issue preferred stock and to determine its rights, powers, and preferences without shareholder approval ("blank check preferred stock"). Future preferred stock issued under the board's authority could contain preferences over our common stock as to dividends, distributions, and voting power. Holders of preferred stock could, for example, be given the right to separately elect some number of our directors in all or specified events or an independent veto right over certain transactions, and redemption rights and liquidation preferences assigned to preferred shareholders could affect the residual value of your common stock. We could also use the preferred stock to deter or delay a change in control that may be opposed by management even if the transaction might be favorable to you as a common shareholder.

Our officers and directors own a substantial amount of our common stock and, therefore, exercise significant control over our corporate governance and affairs, which may result in their taking actions with which you do not agree.

Our executive officers, directors, and affiliates, and entities affiliated with them, control approximately 30% of our outstanding common stock (including exercisable stock options held by them). These shareholders, if they act together, may be able to exercise substantial influence over the outcome of all corporate actions requiring approval of our shareholders, including the election of directors and approval of significant corporate transactions, which may result in corporate action with which you do not agree. This concentration of ownership may also have the effect of delaying or preventing a change in control and might affect the market price of our common stock.

An impairment in the carrying value of our goodwill could adversely affect our financial condition and results of operations and share price.

Goodwill represents the difference between the purchase price of acquired companies and the related fair values of net assets acquired. Under generally accepted accounting principles, we review our goodwill and other intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment at least annually. Factors that may be considered a change in circumstances indicating that the carrying value of our goodwill or amortizable intangible assets may not be recoverable include a decline in our stock price and market capitalization, future cash flows, and slower growth rates in our industry. A significant amount of judgment is involved in determining if an indication of impairment exists. We may be required to record a significant charge to earnings in our financial statements during the period in which any impairment of our goodwill or other intangible assets is determined, resulting in an impact on our results of operations. For example, in March 2009, we announced a loss of $58.3 million for the fourth quarter of 2008, which included non-cash goodwill and other intangible assets impairment charges of $56.7 million, due to the decline in our stock price causing our market capitalization to fall below the net book value of our assets.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our principal executive office together with certain brokerage and wealth management operations of SMH are located at 600 Travis, Houston, Texas, and comprise approximately 44,000 square feet of leased office space pursuant to lease arrangements expiring in 2020. The Company has 29 other office locations including two in California, one in Colorado, two in Illinois, four in Maryland, one in Mississippi, two in New Jersey, one in New Mexico, seven in New York, one in Ohio, one in Oklahoma, four in Texas, and three in Virginia. We lease all of our office space which management believes, at the present time, is adequate for our business.

Item 3. Legal Proceedings

Many aspects of our business involve substantial risks of liability. In the normal course of business, we have been and in the future may be named as defendant or co-defendant in lawsuits and arbitration proceedings involving primarily claims for damages. We are also involved in a number of regulatory matters arising out of the conduct of our business. There can be no assurance that these matters will not have a material adverse effect on our results of operations in any future period and a significant judgment could have a material adverse impact on our consolidated financial position, results of operations, and cash flows. In addition to claims for damages and monetary sanctions that may be made against us, we incur substantial costs in investigating and defending claims and regulatory matters.

As previously reported, in March 2009, a purchaser of Ronco Corp. ("Ronco") convertible preferred stock filed a complaint against SMH, Palisades Master Fund, L.P. and PEF Advisors, LLC vs. Sanders Morris Harris Inc. , in the 11th Judicial District Court of Harris County, Texas, alleging common law fraud, statutory fraud in a stock transaction, violations of the Texas Securities Act, and negligent misrepresentation in connection with their purchase of $1.9 million in Ronco convertible preferred stock. In September 2010, following mediation, SMH agreed to pay the plaintiffs the sum of $225,000 to settle this matter. The settlement was finalized on October 21, 2010, and the case has been dismissed with prejudice.

Also as previously reported, in July 2009, the Bankruptcy Trustee for Ronco Corp. ("Ronco") filed a derivative action on behalf of the shareholders of Ronco against two former directors of Ronco (who were employees of SMH) for negligently authorizing the closing of the purchase of the assets of Ronco Marketing Corp. in breach of their fiduciary duties of care and loyalty and against SMH for negligent misrepresentation, breach of fiduciary duties, breach of contract, and violation of the Texas Fraudulent Transfer Act, Diane Weil, Solely in Her Capacity as Trustee of Ronco Corporation and Ronco Marketing Corporation vs. A. Emerson Martin II, Gregg Mockenhaupt, and Sanders Morris Harris Inc. , in the 190th Judicial District Court of Harris County, Texas. Following mediation, the parties to this matter agreed in principle to a settlement and dismissal, which was approved by the U.S. Bankruptcy Court that has jurisdiction over the Ronco bankruptcy proceeding on December 13, 2010. SMH contributed $50,000 to the settlement, which bars any future actions against SMH with respect to the Ronco offering.

In addition, as previously reported, in July 2008, the Dallas regional office of the Financial Industry Regulatory Authority (FINRA) conducted a routine examination of SMH's broker-dealer activities. SMH received an examination report on December 31, 2008, which identified a number of deficiencies in SMH's operations. In April 2009, SMH resolved half of the deficiencies noted through a compliance conference procedure. On October 5, 2010, SMH received a "Wells letter" notification from FINRA, which stated that the staff of FINRA had made a preliminary determination to recommend that disciplinary action be brought against SMH and two former employees based on alleged violations of certain federal securities laws and FINRA rules based on the deficiencies identified in the 2008 examination. Counsel for SMH and the former employees have reached an agreement in principle with the Dallas regional office of FINRA to resolve the matter. While the agreement must be finalized, we do not believe its impact on SMH and the Company will be material.

In view of the inherent difficulty of predicting the outcome of legal proceedings, particularly where the plaintiffs seek substantial or indeterminate damages or where novel legal theories or a large number of parties are involved, we cannot state with confidence what the eventual outcome of currently pending matters will be, what the timing of the ultimate resolution of these matters will be, or what the eventual result in each pending matter will be. Based on currently available information, we have established reserves for certain litigation matters and our management does not believe that resolution of any matter will have a material adverse effect on our liquidity or financial position although, depending on our results for a particular period, an adverse determination could have a material effect on quarterly or annual operating results in the period in which it is resolved.

Item 4. Reserved

None.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock trades on the Global Market Security tier of The NASDAQ Stock Market under the symbol "SMHG." The following table sets forth the quarterly high and low sales prices for our common stock during 2010 and 2009 for the calendar quarters indicated, each as reported on the NASDAQ National Market, and cash dividends declared per share of common stock:

Calendar Period	High	Low	Cash Dividend
2010:			
First Quarter	$ 6.40	$ 4.50	$ 0.045
Second Quarter	$ 6.49	$ 5.10	$ 0.045
Third Quarter	$ 5.89	$ 4.89	$ 0.045
Fourth Quarter	$ 7.74	$ 5.48	$ 0.050
2009:			
First Quarter	$ 6.45	$ 3.51	$ 0.045
Second Quarter	$ 6.38	$ 3.80	$ 0.045
Third Quarter	$ 6.21	$ 5.05	$ 0.045
Fourth Quarter	$ 6.25	$ 4.74	$ 0.045

At March 7, 2011, there were 275 holders of record of our common stock.

Dividend Policy

In 2002, our board of directors instituted a policy of paying regular quarterly dividends on our common stock. During 2005, we increased the declared quarterly dividend payment to $0.045 per share (an annual amount of $0.18 per share). We further increased the declared quarterly dividend payment to $0.050 per share in the fourth quarter of 2010. In March 2011, the board of directors declared an additional dividend for the first quarter of 2011 in the amount of $0.050 per share. Our declaration and payment of future dividends is subject to the discretion of our board of directors. In exercising this discretion, the board of directors will take into account various factors, including general economic and business conditions, our strategic plans, our financial results and condition, our expansion plans, any contractual, legal and regulatory restrictions on the payment of dividends, and such other factors the board considers relevant.

Securities Authorized for Issuance Under Equity Compensation Plans

For our equity compensation plans, the following table shows, at the end of fiscal year 2010, (a) the number of securities to be issued upon the exercise of outstanding options, warrants and rights, (b) the weighted-average exercise price of such options, warrants and rights, and (c) the number of securities remaining available for future issuance under the plans, excluding those issuable upon exercise of outstanding options, warrants and rights.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column(a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	360,000	$ 12.40	2,577,063 (1)
Equity compensation plans not approved by security holders	-	-	-
Total	360,000	$ 12.40	2,577,063

(1) The number of shares of our common stock available for incentive awards under our 1998 Incentive Plan is the greater of 4.0 million shares or 25% of the total number of shares of our common stock from time to time outstanding.

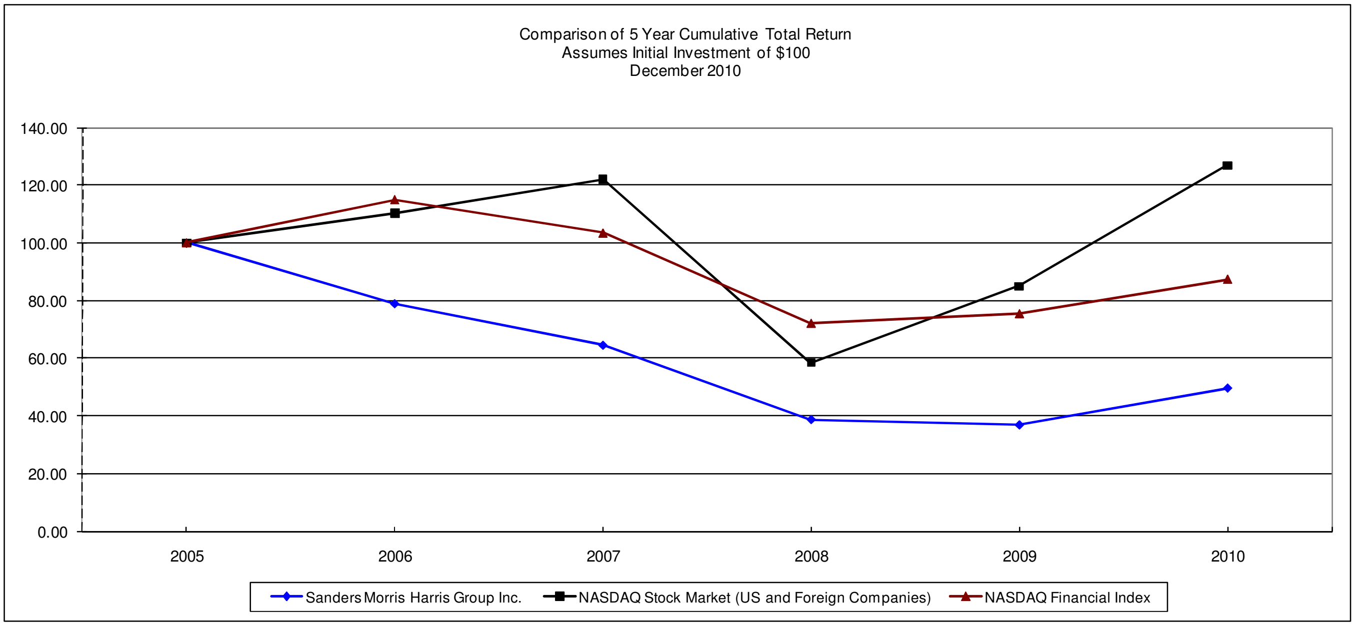
The following table provides information about the Company's share repurchase activity for the twelve months ended December 31, 2010:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs (1)	Maximum number of shares that may yet be purchased under the plans or programs
Janaury 1 to January 31, 2010	92,160	$ 5.29	-	-
February 1 to February 28, 2010	284,700	$ 4.73	5,685	677,832
March 1 to March 31, 2010	639,052	$ 5.84	362,113	315,719
April 1 to April 30, 2010	110,462	$ 6.22	76,275	239,444
May 1 to May 31, 2010	219,075	$ 5.59	-	1,239,444
June 1 to June 30, 2010	367,558	$ 5.69	235,113	1,004,331
July 1 to July 31, 2010	178,058	$ 5.58	223,367	780,964
August 1 to August 31, 2010	130,547	$ 5.33	3,617	777,347
September 1 to September 30, 2010	185,940	$ 5.65	160,342	617,005
October 1 to October 31, 2010	159,847	$ 5.81	97,468	519,537
November 1, to November 30, 2010	77,279	$ 6.29	7,728	511,809
December 1 to December 31, 2010	157,072	$ 7.39	35,485	476,324
Total	2,601,750	$ 5.72	1,207,193	476,324

(1) The Company announced a share repurchase program on November 7, 2007, to purchase up to 1.0 million shares of the Company's shares of common stock. On May 27, 2010, the board of directors approved the repurchase of up to an additional 1.0 million shares of common stock, subject to maximum expenditure of $2.5 million under our credit agreement.

Corporate Performance

The following chart shows a comparison of the cumulative total shareholder return on our common stock for the five-year period ended December 31, 2010, as compared to the cumulative total return of the Nasdaq Stock Market Index and the Nasdaq Financial Stocks Index, a peer group, assuming $100 was invested at market close on December 31, 2005 in our common stock and the two indices and dividends were reinvested.



	Dec-05	**Dec-06**	**Dec-07**	**Dec-08**	**Dec-09**	**Dec-10**
Sanders Morris Harris Group Inc…………………..	$ 100.00	$ 78.91	$ 64.45	$ 38.60	$ 36.73	$ 49.56
Nasdaq Stock Market Index (U.S. & Foreign)……..	100.00	110.31	121.92	58.44	84.91	126.86
Nasdaq Financial Stocks Index (1)……………..….	100.00	114.98	103.36	72.06	75.45	87.38

(1) The Nasdaq Financial Stocks Index is composed of all Nasdaq companies with Standard Industrial Classification codes ranging from 6000 through 6799.

The foregoing performance graph is not deemed to be "soliciting material" or to be "filed" with the SEC or subject to Regulation 14A or 14C, other than as provided in Item 201 of Regulation S-K, or to the liabilities of Section 18 of the Securities Exchange Act of 1934, and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or Securities Exchange Act of 1934, except to the extent that we specifically incorporate it by reference.

Item 6. Selected Financial Data

The following data should be read together with the Consolidated Financial Statements and their related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included later in this report.

	Year Ended December 31,				
	2010	2009	2008	2007	2006
	(in thousands except per share amounts)				
Statements of Operations:					
Total revenue	$ 168,843	$ 164,240	$ 171,941	$ 155,071	$ 134,297
Income (loss) from continuing operations	$ 16,232	$ 1,148	$ (13,423)	$ 20,431	$ 15,815
Income (loss) from discontinued operations, net of income taxes	(697)	(1,518)	(4,974)	499	(5,701)
Net income (loss)	15,535	(370)	(18,397)	20,930	10,114
Less: Net income attributable to the noncontrolling interest	(5,839)	(5,112)	(6,896)	(15,837)	(6,708)
Net income (loss) atttributable to Sanders Morris Harris Group Inc.	$ 9,696	$ (5,482)	$ (25,293)	$ 5,093	$ 3,406
Diluted earnings (loss) per common share:					
Continuing operations	$ 0.35	$ (0.14)	$ (0.75)	$ 0.18	$ 0.43
Discontinued operations	(0.02)	(0.05)	(0.19)	0.02	(0.27)
Net earnings (loss)	$ 0.33	$ (0.19)	$ (0.94)	$ 0.20	$ 0.16
Weighted average common shares outstanding - diluted	29,370	28,402	26,972	25,086	20,915

	As of December 31,				
	2010	2009	2008	2007	2006
	(in thousands except per share amounts)				
Balance Sheet Data:					
Cash and cash equivalents	$ 44,521	$ 40,455	$ 28,971	$ 46,503	$ 68,861
Securities owned	41,691	39,380	54,559	85,567	83,929
Total assets	365,892	320,038	297,470	291,548	282,042
Total liabilities	101,534	79,411	66,111	48,265	49,982
Sanders Morris Harris Group Inc. shareholders' equity	226,621	224,194	222,554	223,178	219,936
Noncontrolling interest	37,737	16,433	8,805	20,105	12,124
Total equity	264,358	240,627	231,359	243,283	232,060
Cash dividends declared per common share	$ 0.185	$ 0.180	$ 0.180	$ 0.180	$ 0.180

Refer to Note 2 – " *Acquisitions and Dispositions* " and Note 1 – " *Principles of Consolidation* " for additional information on significant transactions that impact the Balance Sheets for 2010 and 2009 for the following significant transactions:

- Global acquisition
- Concept disposition
- Adoption of ASC Topic 810, *Consolidation*

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Special Cautionary Notice Regarding Forward-Looking Statements

This Annual Report on Form 10-K includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements may relate to such matters as anticipated financial performance, future revenue or earnings, business prospects, projected ventures, new products, anticipated market performance, and similar matters. We caution you that a variety of factors could cause our actual results to differ materially from the anticipated results or other expectations expressed in our forward-looking statements. These risks and uncertainties, many of which are beyond our control, include, but are not limited to (1) trading volume in the securities markets; (2) volatility of the securities markets and interest rates; (3) changes in regulatory requirements that could affect the demand for our services or the cost of doing business; (4) general economic conditions, both domestic and foreign, especially in the regions where we do business; (5) changes in the rate of inflation and related impact on securities markets; (6) competition from existing financial institutions and other new participants in the securities markets; (7) legal developments affecting the litigation experience of the securities industry; (8) successful implementation of technology solutions; (9) changes in valuations of our trading and warrant portfolios resulting from mark-to-market adjustments; (10) dependence on key personnel; (11) demand for our services; and (12) litigation and securities law liabilities. See “Item 1A. – Risk Factors.” The Company does not undertake any obligation to publicly update or revise any forward-looking statements.

The following discussion should be read in conjunction with the Consolidated Financial Statements and their related notes and other detailed information appearing elsewhere in this Annual Report.

Overview

The Company is a holding company that, through its subsidiaries and affiliates, provides wealth management and institutional services to a large and diversified group of clients and customers, including individuals, corporations, and financial institutions. A summary of these services follows:

> Our *Wealth Management* segment provides investment advisory, wealth and investment management, and financial planning services to high net worth and mass affluent individuals and institutions, including investment strategies and alternatives, tax efficient estate and financial planning, trusts, and agent/fiduciary investment management services, throughout their financial life cycle, as well as private client brokerage services. In addition, we provide specialized wealth management products and services in specific investment styles to individuals, corporations, and institutions both through internal marketing efforts and externally through formal sub-advisory relationships and other distribution arrangements with third parties.
>
> Our *Institutional Services* segment provides institutional equity brokerage and prime brokerage services to institutional clients, and third party management of a portion of our assets.
>
> *Institutional Brokerage* provides institutional equity brokerage and hedge funds research to a broad array of institutions, including banks, retirement funds, mutual funds, endowments, investment advisors, and insurance companies.
>
> *Prime Brokerage Services* provides trade execution, clearing, bookkeeping, reporting, custodial, securities borrowing, financing, research, and fund raising to hedge fund clients. The Company maintains a small number of asset management accounts on behalf of individual asset managers through this division.

We are exposed to volatility and trends in the general securities market and the economy. Due to the downturn in the market and the economic recession that began during the second half of 2008 and in the first quarter of 2009, client assets declined during the last half of 2008 and into the first quarter of 2009. However, during the second quarter of 2009, the market began to improve and client assets have recovered resulting in, among other things, higher fee and commission revenue. While many economists believe the recession ended some time during the first quarter of fiscal 2010, unemployment and tight credit markets continue to create an unstable economic environment, and there is no guarantee that conditions will not worsen again. Client assets under management or advisement were as follows:

	Client Assets[1] (in millions)
December 31, 2007	$ 11,344
March 31, 2008	11,342
June 30, 2008	10,979
September 30, 2008	10,290
December 31, 2008	8,627
March 31, 2009	8,501
June 30, 2009	9,534
September 30, 2009	10,595
December 31, 2009	11,273
March 31, 2010	11,904
June 30, 2010	11,085
September 30, 2010	12,072
December 31, 2010	17,106

[1]Client assets include the gross value of assets under management directly or via outside managers and assets held in brokerage accounts for clients by outside clearing firms.

Fiscal year 2008 and the first quarter of 2009 was a very challenging environment for the capital markets given the unprecedented events on Wall Street that led to increased uncertainty and turmoil in the U.S. economy and global financial markets. We made the necessary adjustments to our business and adapted to the current environment. We focused on the following items:

- preserving capital and retaining key people in order to emerge as a strong player once market stability returns;
- reducing compensation and non-compensation expenses in order to operate on a positive cash basis;
- closing offices that were unprofitable;
- exiting business lines that are subject to greater than normal revenue and profit volatility; and
- acquiring wealth management businesses that enhance or complement our existing franchise value.

Client assets increased by $5.8 billion during 2010, of which $1.5 billion was due to market appreciation and net inflows of $4.3 billion. The acquisition of Global in December 2011 represents $4.1 billion of the total $4.3 billion of net inflows. The Company's 11.85% market-related increase in client assets compares with a 15.06% increase in the S&P 500 and a 12.13% increase in a 60/40 portfolio.

	Twelve Months Ended December 31,	
	2010	2009
	(in millions)	
Client assets at January 1	$ 11,273	$ 8,627
Inflows (Outflows):		
Asset Inflows	6,661	2,307
Asset Outflows	(2,331)	(1,322)
Net Inflows	4,330	985
Market Appreciation	1,503	1,661
Net Change	5,833	2,646
Client Assets at December 31	$ 17,106	$ 11,273

Growth Strategy

Our expansion of Edelman offices continues on plan. Eight new branches have been added in 2010 in metropolitan New York, greater Washington, D.C., Chicago and South Florida. Additional expansion offices are slated for the Richmond, Boston, San Francisco and Detroit areas in 2011. Although the expansion costs will impact earnings over the short term, we believe this investment will add enormously to the Company's future results of operations.

In addition, the Company plans to further build on this expansion success by seeking to acquire other high-caliber practices and has established reserves to fund this mission. The Company added $4.1 billion in assets under management from the acquisition of Global. Global is a registered investment advisor and broker-dealer that serves high net worth clients in international markets in Mexico, in Central and South America. Initiatives to attract new broker-dealers and advisors who we feel add to the success and profitability of the Company are also underway. The Company is also working to attract new clients and assets to existing businesses and is preparing a significant marketing initiative for 2011.

The prior years' economic turmoil and upheaval in the credit markets resulted in significant dislocation in our industry. We believe this continues to present a time of opportunity for us. The considerable changes and challenges that many larger national firms are experiencing give us an advantage in hiring highly qualified and experienced financial advisors who have either become dislocated or disheartened with their current employer. Financial advisors at these firms are faced with the challenge of convincing customers that their parent firm is strong and financially stable despite negative media coverage. These financial professionals now consider regional firms like ours as serious alternatives for their business. Our pipeline of new recruits and the quality of new recruits has increased significantly over the past two years.

We are well aligned for expansion having divested the Company of the primary capital markets units that do not complement our concentration on wealth management. We substantially completed the sale of Concept on December 31, 2010. We continue to own an interest in CCH, the parent of the newly formed broker-dealer, CCM. Concept it is no longer an operating unit of the Company. The Company is well capitalized and poised for growth.

Business Environment

Our business is sensitive to financial market conditions, which have been very volatile over the past twenty-four months. As of December 31, 2010, equity market indices reflected an average increase from a year ago with the Dow Jones Industrial Average, the Standard & Poor's 500 Index and the NASDAQ Composite Index up. In contrast, the average daily volume on the New York Stock Exchange declined during 2010. Despite the rally in the markets in the first quarter of 2010, the economic environment is challenging with the national unemployment rate at approximately 9.8% at December 31, 2010, a decrease from the high of 10% at the end of December 2009. The Federal Reserve Board reduced the federal funds target rate to 0 – 0.25% on December 16, 2008, and has not yet begun increasing rates. Most economists do not expect the federal funds rate will increase significantly during the first quarter of 2011.

Investors initially responded to the volatile markets with a flight to quality which, in turn, reduced yields on short-term U.S. treasury securities and produced a dramatic reduction in commercial paper issuance. Investors are slowly moving back to high yielding investments, but this has been a slow progression.

The disruptions and developments in the general economy and the credit markets over the past twenty-four months have resulted in a range of actions by the U.S. and foreign governments to attempt to bring liquidity and order to the financial markets and to prevent a long recession in the world economy. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Act") was passed by Congress on July 15, 2010, and was signed into law on July 21, 2010. The Act, among other things, established a Financial Stability Oversight Council and a Consumer Financial Protection Bureau whose duties will include the monitoring of domestic and international financial regulatory proposals and developments, as well as the protection of consumers. Many regulations will be issued to implement the Act over the next twelve to twenty-four months. We have reviewed the Act but are unable to determine the final impact that the Act will have on our operations until all of the regulations have been issued.

Components of Revenue and Expenses

Revenue. Our revenue is comprised primarily of (1) fees from asset-based advisory services, wealth management, and financial planning services; (2) commission revenue from wealth advisory, prime and institutional brokerage transactions; and (3) principal transactions. We also earn interest on cash held and receive dividends from the equity and fixed income securities held in our corporate capital accounts, receive sales credits from third party placement agreements, earn fees through the sale of insurance products, and have realized and unrealized gains (or losses) on securities in our inventory account.

Expenses. Our expenses consist of (1) compensation and benefits; (2) floor brokerage, exchange, and clearance fees; and (3) other expenses. Compensation and benefits have both a variable component, based on revenue production, and a fixed component. The variable component includes institutional and retail sales commissions, bonuses, overrides, and other incentives. Wealth advisory and institutional commissions are based on competitive commission schedules. The fixed component includes administrative and executive salaries, payroll taxes, employee benefits, and temporary employee costs. Compensation and benefits is our largest expense item and includes wages, salaries, and benefits. During 2010, compensation and benefits represented 63.2% of total expenses and 59.3% of total revenue, compared to 58.8% of total expenses and 59.6% of total revenue during 2009. The increase in compensation and benefits as a percentage of expenses is principally due to a $14.6 million goodwill and other intangible assets impairment charge recognized in 2009, partially offset by increased communications and data processing costs, occupancy, and other general and administrative expenses.

Floor brokerage, exchange, and clearance fees include clearing and trade execution costs associated with the retail, prime, and institutional brokerage business at SMH. SMH clears its transactions through several clearing firms, including Pershing, an affiliate of The Bank of New York Mellon, Goldman Sachs Execution & Clearing, L.P., First Clearing Corporation, J.P. Morgan Clearing Corp and T.D. Ameritrade.

Other expenses include (1) communications and data processing expenses, such as third-party systems, data, and software providers; (2) occupancy expenses, such as rent and utility charges for facilities; (3) interest expense; (4) goodwill and other intangible assets impairment charges; (5) amortization of intangible assets; and (6) other general and administrative expenses.

Results of Operations

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Total revenue increased $4.6 million to $168.8 million in 2010 from $164.2 million in 2009, while total expenses decreased $8.0 million to $158.3 million in 2010 from $166.3 million in 2009. The Company recognized goodwill and other intangible assets impairment charges of $14.6 million in 2009. There were no such impairment charges recorded in 2010. Equity in income (loss) of limited partnerships increased to income of $12.9 million in 2010 from a loss of $1.3 million in 2009, reflecting an increase in the fair value of our investment in PTC Houston Management, Madison Williams, and in the value of fund partnership investments. The Company recognized a $3.0 million gain on step acquisition in 2009 related to the Company's previously-held noncontrolling interest in Edelman Financial Advisors, LLC ("EFA"). Income from continuing operations, net of income taxes attributable to SMHG common shareholders was $10.4 million, or $0.35 per diluted common share, in 2010 compared to a loss of $4.0 million, or $0.14 per diluted common share, in 2009.

Revenue from investment advisory and related services increased from $72.0 million during 2009 to $96.7 million in 2010 as a result of an increase in average client assets. Commission revenue decreased to $33.3 million in 2010 from $36.6 million during 2009 as a result of a decrease in trading volume in the Wealth Management segment. Investment banking revenue increased to $4.0 million in 2010 from $2.5 million in 2009 due to an increase in selling concessions earned, partially offset by a decrease in sales credits received in investment banking transactions. Principal transactions revenue decreased from $35.1 million in 2009 to $18.2 million in 2010 as the result of a decrease in the sale of fixed income products. Interest and dividend income decreased from $10.7 million in 2009 to $10.3 million in 2010 as a result of decreased interest earned on notes receivable received in connection with the sale of our interests in Salient Partners, L.P. and Endowment Advisors, L.P. in 2008, as the principal balance was paid down during 2010.

Employee compensation and benefits increased to $101.0 million in 2010 from $97.8 million in 2009 due to higher employee commission expense related to higher revenue and to additional personnel related to the EFA acquisition and the Edelman expansion. Floor brokerage, exchange, and clearance fees decreased to $3.8 million in 2010 from $5.2 million in 2009 due to a decrease in clearance fees in the institutional brokerage services division reflecting lower trading volume. Communications and data processing increased to $11.4 million in 2010 from $9.7 million in 2009 due to higher clearing firm service fees resulting from the increase in trading volume in the Wealth Management segment and additional customer accounts related to the EFA acquisition and the Edelman expansion. Occupancy costs increased to $13.0 million in 2010 from $11.2 million in 2009 due to the Edelman expansion. Interest expense decreased to $1.8 million in 2010 from $2.7 million in 2009 due to a decrease in the weighted average balance of our funded debt from 2009 to 2010. Amortization of intangible assets increased to $1.8 million in 2010 from $1.6 million in 2009 due to the acquisition of an additional 66% membership interest in EFA on April 1, 2009 and to the acquisition of IFS in 2010. Other general and administrative expenses increased to $26.5 million in 2010 from $23.6 million in 2009 due to an increase in advertising and other expenses related to the acquisition of EFA and to the Edelman expansion.

Our effective tax rate from continuing operations was 40.8% in 2010 compared to 28.5% in 2009. The effective tax rate for 2009 was impacted by nondeductible goodwill impairment charges and state income taxes recognized for book purposes.

During the first quarter of 2009, the Company closed three retail offices. The decision was made due to the offices' inability to achieve sufficient revenue to offset their costs. During the fourth quarter of 2009, the Company completed its sale of the Capital Markets Business. The Company recorded a net loss from discontinued operations, net of income taxes of $697,000 in 2010 compared to $1.5 million in 2009 related to the closed offices, sale of the Capital Markets Business in 2009, and the sale of the Washington Research Group in 2010. The Company recognized a gain on the sale of the Capital Markets Business of $5.9 million in 2009, and a gain on the sale of the Washington Research Group of $1.4 million in 2010, net of income taxes, that is included in net loss from discontinued operations.

RESULTS BY SEGMENT

Wealth Management

	Year Ended December 31,	
	2010	2009
	(in thousands)	
Revenue	$ 125,299	$ 100,943
Income from continuing operations before income taxes	$ 35,200	$ 25,787

Revenue from wealth management increased to $125.3 million from $100.9 million and income from continuing operations before income taxes increased to $35.2 million from $25.8 million. On April 1, 2009, the Company increased its ownership of EFA from 10% to 76%, which required a change in our method of accounting for EFA's results to consolidation from the cost method. Edelman opened six new offices in September 2009 and an additional eight new offices during the twelve months ended December 31, 2010. Investment advisory and related services fees increased to $93.8 million from $71.9 million reflecting an increase in the size of our client portfolios primarily due to improvement in the general securities market and the economy. Sales credits from syndicate transactions increased $1.8 million as a result of an increase in syndicate transactions. Total expenses increased to $92.5 million from $74.3 million due to higher employee compensation and occupancy costs associated with the EFA acquisition, the Edelman expansion, and the increase in revenue. Equity in income (loss) of limited partnerships increased to $2.4 million from a loss of $898,000. The increase in equity in income (loss) of limited partnerships is attributable to an increase in the value of the limited partnerships we manage.

Institutional Services

Institutional Brokerage

	Year Ended December 31,	
	2010	2009
	(in thousands)	
Revenue	$ 4,523	$ 4,814
Loss from continuing operations before income taxes	$ (454)	$ (638)

Revenue from institutional services decreased to $4.5 million from $4.8 million. Commission revenue decreased as a result of a decline in the number of shares traded. Total expenses decreased to $5.0 million from $5.5 million due to decreased employee compensation related to the lower revenue. Loss from continuing operations before income taxes decreased to $454,000 from $638,000.

Prime Brokerage Services

	Year Ended December 31,	
	2010	2009
	(in thousands)	
Revenue	$ 30,390	$ 49,837
Income (loss) from continuing operations before income taxes	$ (1,950)	$ 2,311

Revenue from prime brokerage services decreased to $30.4 million from $49.8 million and income (loss) from continuing operations before income taxes decreased to a loss of $2.0 million from income of $2.3 million. Principal transactions revenue decreased to $13.6 million from $27.7 million reflecting a decrease in proprietary trading revenue and a decrease in revenue earned from the sale of fixed income products. Total expenses decreased to $31.2 million from $47.5 million due to the revenue decline.

Corporate Support and Other

	Year Ended December 31, 2010	Year Ended December 31, 2009
	(in thousands)	
Revenue	$ 8,631	$ 8,646
Loss from continuing operations before income taxes	$ (9,391)	$ (27,890)

Revenue from corporate support and other remained flat at $8.6 million, and loss from continuing operations before income taxes decreased to $9.4 million from $27.9 million. Total expenses decreased to $28.5 million from $39.1 million due primarily to $14.6 million of goodwill and other intangible assets impairment charges recognized in 2009. This decrease was partially offset by an increase in the provision for bad debts of $1.4 million due to the write off of a note receivable made in conjunction with the Company's investment in iProOne, Inc. The deconsolidation of one of the limited partnerships, due to the adoption of the new accounting guidance for variable interest entities and the fair value measurement of that investment, and the increase in the fair value of our investment in Madison Williams resulted in equity in income of limited partnerships of $10.5 million for the twelve months ended December 31, 2010. The Company recognized a $3.0 million gain on step acquisition in 2009 related to its previously-held noncontrolling interest in EFA.

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

Total revenue decreased $7.7 million to $164.2 million in 2009 from $171.9 million in 2008, while total expenses decreased $46.0 million to $166.3 million in 2009 from $212.3 million in 2008. The Company recognized goodwill and other intangible assets impairment charges of $14.6 million in 2009 and $56.7 million in 2008. Equity in income (loss) of limited partnerships decreased to a loss of $1.3 million in 2009 from income of $38.6 million in 2008, primarily due to the sale of our interests in Salient Partners, L.P. and Endowment Advisers, L.P. in 2008. The Company recognized a $3.0 million gain on step acquisition in 2009 related to the Company's previously-held noncontrolling interest in EFA. Loss from continuing operations, net of income taxes attributable to SMHG common shareholders was $4.0 million, or $0.14 per diluted common share, in 2009 compared to $20.3 million, or $0.75 per diluted common share, in 2008.

Revenue from investment advisory and related services decreased from $73.8 million during 2008 to $72.0 million in 2009 as a result of a decrease in average client assets. Commission revenue decreased to $36.6 million in 2009 from $48.9 million during 2008 as a result of a decrease in trading volume in the Wealth Management segment. Investment banking revenue increased to $2.5 million in 2009 from $2.3 million in 2008 due to an increase in selling concessions earned, partially offset by a decrease in fees received in investment banking transactions. Principal transactions revenue increased from $29.0 million in 2008 to $35.1 million in 2009 as the result of an increase in the sale of fixed income products. Interest and dividend income increased from $6.7 million in 2008 to $10.7 million in 2009 as a result of interest earned on notes receivable received in connection with the sale of our interests in Salient Partners, L.P. and Endowment Advisors, L.P.

Employee compensation and benefits decreased to $97.8 million in 2009 from $105.0 million in 2008 due to the lower employee commission costs in the prime brokerage services division. Floor brokerage, exchange, and clearance fees decreased to $5.2 million in 2009 from $6.5 million in 2008 due to a decrease in clearance fees in the prime brokerage services division reflecting lower trading volume. Communications and data processing decreased to $9.7 million in 2009 from $10.0 million in 2008 due to a decrease in clearing firm service fees in the prime brokerage services division. Occupancy costs increased to $11.2 million in 2009 from $10.0 million in 2008 due to the acquisition of an additional 66% membership interest in EFA on April 1, 2009 and the acquisitions of Leonetti and Miller-Green in 2008. Interest expense increased to $2.7 million in 2009 from $147,000 in 2008 due to (1) $1.1 million of imputed interest associated with an incentive compensation payable resulting from the sale of our interests in Salient Partners, L.P. and Endowment Advisers, L.P.; (2) $717,000 of interest related to the credit facility funded in 2009; and (3) $786,000 of interest associated with the acquisition of an additional 66% membership interest in EFA on April 1, 2009. The Company recognized goodwill and other intangible assets impairment charges of $14.6 million in 2009 and $56.7 million in 2008. Amortization of intangible assets increased to $1.6 million in 2009 from $777,000 in 2008 due to the acquisition of additional interest in EFA. Other general and administrative expenses increased to $23.6 million in 2009 from $23.1 million in 2008 due to increases of advertising expense at Edelman and $2.4 million in the provision for uncollectible accounts partially offset by a decrease in outside sales commissions.

Our effective tax rate from continuing operations was 28.5% in 2009 compared to (135.7)% in 2008. The effective tax rate for 2008 was impacted by nondeductible goodwill impairment charges and state income taxes recognized for book purposes.

During the first quarter of 2009, the Company closed three retail offices. The decision was made due to the offices' inability to achieve sufficient revenue to offset their costs. During the fourth quarter of 2009, the Company completed its sale of the Capital Markets Business. The Company recorded a net loss from discontinued operations of $1.5 million in 2009 compared to $5.0 million in 2008 related to the closed offices and sold Capital Markets Business. The Company recognized a gain on the sale of the Capital Markets Business of $5.9 million, net of income taxes, that is included in net loss from discontinued operations in 2009.

RESULTS BY SEGMENT

Wealth Management

	Year Ended December 31,	
	2009	2008
	(in thousands)	
Revenue	$ 100,943	$ 101,950
Income from continuing operations before income taxes	$ 25,787	$ 87,177

Revenue from wealth management decreased to $100.9 million in 2009 from $102.0 million in 2008 and income from continuing operations before income taxes decreased to $25.8 million in 2009 from $87.2 million in 2008. Investment advisory and related services revenue decreased to $71.9 million from $73.6 million as a result of a decrease in assets under management or advisement. Commission revenue decreased to $11.6 million from $16.6 million reflecting a decline in shares traded by the firm's wealth advisor clients due to uncertainty in the financial markets. Interest income increased to $8.2 million from $3.4 million as a result of interest earned on notes receivable received in connection with the sale of our interests in Salient Partners, L.P. and Endowment Advisers, L.P. on August 29, 2008. Total expenses increased to $74.3 million in 2009 from $66.7 million in 2008 primarily due to increases of $2.3 million in advertising expense and $1.6 million in occupancy expense at Edelman resulting from the Company's acquisition of 66% of EFA on April 1, 2009. Equity in income (loss) of limited partnerships decreased to $(898,000) from $51.9 million. The decrease in equity in income (loss) of limited partnerships is attributable to the sale of our interests in Salient Partners, L.P. and Endowment Advisers, L.P. in 2008.

Institutional Services

Institutional Brokerage

	Year Ended December 31,	
	2009	2008
	(in thousands)	
Revenue	$ 4,814	$ 6,574
Loss from continuing operations before income taxes	$ (638)	$ (1,823)

Revenue from institutional brokerage decreased to $4.8 million in 2009 from $6.6 million in 2008 and loss from continuing operations before income taxes decreased to $638,000 in 2009 from $1.8 million in 2008. Commission revenue decreased by $3.1 million to $4.6 million in 2009 from $7.7 million in 2008 reflecting a decline in the number of shares traded in our institutional brokerage division. Principal transactions revenue increased $1.6 million in 2009 compared to 2008 reflecting a decline in losses from market making activities. Total expenses decreased to $5.5 million in 2009 from $8.4 million in 2008 due to decreased employee compensation related to the lower commission revenue.

Prime Brokerage Services

	Year Ended December 31,	
	2009	2008
	(in thousands)	
Revenue	$ 49,837	$ 61,658
Income from continuing operations before income taxes	$ 2,311	$ 2,851

Revenue from prime brokerage services decreased to $49.8 million in 2009 from $61.7 million in 2008 and income from continuing operations before income taxes decreased to $2.3 million in 2009 from $2.9 million in 2008. Commission revenue and third-party marketing fees decreased to $20.3 million in 2009 from $29.6 million in 2008 reflecting a decline in hedge fund servicing revenue. Principal transactions revenue decreased to $27.7 million in 2009 from $30.6 million in 2008 reflecting a decline in proprietary trading revenue. Total expenses decreased to $47.5 million during 2009 from $58.8 million during 2008 reflecting a decrease in employee commission expense.

Corporate Support and Other

	Year Ended December 31,	
	2009	2008
	(in thousands)	
Revenue	$ 8,646	$ 1,759
Loss from continuing operations before income taxes	$ (27,890)	$ (89,929)

Revenue from corporate support and other increased to $8.6 million in 2009 from $1.8 million in 2008 and the loss from continuing operations before income taxes decreased to $27.9 million in 2009 from $89.9 million in 2008. Revenue from principal transactions, which consists principally of changes in the values of our investment portfolios, increased to income of $5.7 million from a loss of $1.7 million. Total expenses decreased to $39.1 million in 2009 from $78.4 million in 2008. This decrease is due to a decline in goodwill and other intangible assets impairment charges to $14.6 million in 2009 compared to $56.7 million in 2008. Equity in loss of limited partnerships decreased to a loss of $450,000 in 2009 from a loss of $13.3 million in 2008. The 2008 loss was primarily due to the decrease in the value of our direct investment in one limited partnership. The Company recognized a $3.0 million gain on step acquisition in 2009 related to the Company's previously-held noncontrolling interest in EFA.

Liquidity and Capital Resources

Cash Requirements

The Company's funding needs consist of (1) funds necessary to maintain current operations; (2) capital expenditure requirements, including funds needed for the Edelman expansion; (3) debt repayment; and (4) funds used for acquisitions.

We intend to satisfy our funding needs with our own capital resources, consisting largely of internally generated earnings and liquid assets, and with borrowings from outside parties. At December 31, 2010, we had $44.5 million in cash and cash equivalents, which together with receivables from broker-dealers and clearing organizations, deposits with clearing organizations, and marketable securities owned represented 16.9% of our total assets at December 31, 2010.

Payments due by period for the Company's contractual obligations at December 31, 2010 are as described in the following table:

	Payment due by period				
	Total	Within 1 year	After 1 but within 3 years	After 3 but within 5 years	After 5 years
			(in thousands)		
Operating lease obligations	$ 46,162	$ 10,694	$ 18,298	$ 9,013	$ 8,157
Repayment of borrowings	27,578	6,973	13,055	7,550	-
Earnout & CAGR cash payments for Global	8,758	888	6,156	1,714	-
Consideration for additional interest in Rikoon	3,000	3,000	-	-	-
Total	$ 85,498	$ 21,555	$ 37,509	$ 18,277	$ 8,157

Operating expenses consist of compensation and benefits, floor brokerage, exchange, and clearance fees, and other expenses. These expenses are primarily dependent on revenue and, with the exception of obligations for office rentals, should require a limited amount of capital in addition to that provided by revenue during 2011. Currently, obligations for non-cancelable office leases total $10.7 million during 2011. Funds required for other working capital items such as receivables, securities owned, and accounts payable, along with expenditures to repurchase stock, are expected to total between $2.0 million and $4.0 million during 2011. Capital expenditure requirements are expected to total between $4.0 million and $6.0 million during 2011, mainly consisting of leasehold improvements, furniture, and computer equipment and software. Funds needed for acquisitions will depend on the completion of transactions that may not be identifiable until such time as the acquisition is completed.

Receivables turnover, calculated as annualized revenue divided by average receivables, was 1.4 for the twelve months ended December 31, 2010 and 2009. The allowance for doubtful accounts as a percentage of receivables was 1.8% at December 31, 2010, compared to 2.2% at December 31, 2009, reflecting an improvement in the credit quality of the Company's receivables.

For the twelve months ended December 31, 2010, net cash provided by operations was $28.8 million versus $20.9 million during the same period in 2010. Marketable securities owned decreased by $8.9 million during 2010, securities sold, not yet purchased increased by $1.9 million and payables to broker-dealers and clearing organizations decreased by $22,000. The Company's portfolio includes both long and short equity positions. Our asset managers generally seek to generate profits based on trading spreads, rather than through speculation on the direction of the market and employ hedging strategies designed to insulate the net value of our portfolios from fluctuations in the general level of interest rates and equity price variances. We finance a portion of our positions through our clearing broker-dealers.

Not readily marketable securities owned, primarily investments in limited partnerships, were $27.9 million at December 31, 2010, compared to $22.8 million at December 31, 2009. This increase is the result of changes in the values of our investment portfolios. The Company does not intend to exit the private investment limited partnerships until dissolution. The company expects to receive its interests in the private investment limited partnerships over the remaining one to ten year life of the private investment limited partnerships.

Capital expenditures during 2010 were $3.0 million, mainly for the purchase of leasehold improvements, furniture, and computer equipment and software necessary for the Edelman expansion.

SMH and GFS BD are subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1 (and the rule of the "applicable" exchange also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1). At December 31, 2010, SMH had net capital, as defined, of $11.1 million, which was $10.3 million in excess of its required net capital of $843,000. At December 31, 2010, GFS BD had net capital, as defined, of $727,000, which was $627,000 in excess of its required net capital of $100,000.

In view of the inherent difficulty of predicting the outcome of legal proceedings, particularly where the plaintiffs seek substantial or indeterminate damages or where novel legal theories or a large number of parties are involved, we cannot state with confidence what the eventual outcome of currently pending matters will be, what the timing of the ultimate resolution of these matters will be, or what the eventual result in each pending matter will be. Based on currently available information, we have established reserves for certain litigation matters and our management does not believe that resolution of any matter will have a material adverse effect on our liquidity or financial position although, depending on our results for a particular period, an adverse determination could have a material effect on quarterly or annual operating results in the period in which it is resolved.

Critical Accounting Policies/Estimates

Investment – Valuation of Not Readily Marketable Securities . Securities not readily marketable consist primarily of investments in private companies, limited partnerships, equities, options, warrants, and a bond. Investments in private investment limited partnerships are carried at fair value and based on quarterly valuations prepared by the general partner of such partnerships, and reviewed by their valuation committee. Investments in other limited partnerships are valued at fair value based on either internal valuation models or management's estimate of amounts that could be realized under current market conditions assuming an orderly liquidation over a reasonable period of time.

Investments in not readily marketable securities, marketable securities with insufficient trading volumes, and restricted securities are carried at their estimated fair value by the Company in the absence of readily ascertainable market values. These estimated values may differ significantly from the values that would have been used had a readily available market existed for these investments. Such differences could be material to the financial statements. At December 31, 2010, the investment portfolio included investments totaling $27.9 million and $22.8 million as of December 31, 2009, whose values had been estimated by the Company in the absence of readily ascertainable market values.

The Company estimates the fair value of the not readily marketable securities using various valuation techniques. The transaction price is typically its best estimate of fair value at inception. When evidence supports a change in the carrying value, adjustments are made to reflect fair values at each measurement date. Ongoing reviews by the Company are based on an assessment of each underlying investment, incorporating valuations that consider one or more different valuation techniques (e.g., the market approach, the income approach, or the cost approach) for which sufficient and reliable information is available. Within Level 3, the use of market approach generally considers comparable transactions and trading multiples of comparable companies, while the use of the income approach generally consists of the net present value of the estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors.

The selection of appropriate valuation techniques may be affected by the availability of relevant inputs as well as the relative reliability of the inputs. In some cases, one valuation technique may provide the best indication of fair value while in other circumstances, multiple valuation techniques may be appropriate. The results of the application of the various techniques may not be equally representative of fair value, due to factors such as assumptions made in the valuation. In some situations, the Company may determine it appropriate to evaluate and weigh the results, as appropriate, to develop a range of possible values, with the fair value based on the Company's assessment of the most representative point within the range.

The inputs used by the Company in estimating the value of level 3 investments include estimated capital expenditures, estimated operating costs, and risk-adjusted discount factors. Other relevant information considered by the Company may include the following factors: original transaction price, recent public or private transactions in the same or similar assets, restrictions on transfer, including the Company's right, if any, to require registration by the issuer of the offering and sale of securities held by the Company under the securities laws; significant recent events affecting the issuer, including significant changes in financial condition and pending mergers and acquisitions; and all other reasonable and customary factors affecting value. The fair value measurement of level 3 investments does not include transaction costs that may have been capitalized as part of the investment's cost basis. Assumptions used by the Company due to the lack of observable inputs may significantly impact the resulting fair value and therefore the Company's results of operations.

Goodwill and Other Intangible Assets. Goodwill represents the excess of the aggregate purchase price over the fair value of the net assets acquired in a business combination. Goodwill is reviewed for impairment at least annually in accordance with the provisions of FASB ASC Topic 350, *Intangibles – Goodwill and Other* . ASC Topic 350 requires that goodwill be tested for impairment between annual test dates if an event or changing circumstances indicate that it is more likely than not that the fair value of the reporting unit is below its carrying amount. The goodwill impairment test is a two-step test. Under the first step, the fair value of the reporting unit is compared with its carrying value (including goodwill and other intangible assets). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the enterprise must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation, in accordance with FASB ASC Topic 805, *Business Combinations* . The residual fair value after this allocation is the implied fair value of the reporting unit goodwill.

Factors considered in determining fair value include, among other things, the Company's market capitalization as determined by quoted market prices for its common stock and the value of the Company's reporting units. The Company uses several methods to value its reporting units, including discounted cash flows, comparisons with valuations of public companies in the same industry, and multiples of assets under management. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed.

In performing the first step of the goodwill impairment test, the estimated fair values of the reporting units were developed using the methods listed above. When performing the discounted cash flow analysis, the Company utilized observable market data to the extent available. Future cash flow projections are based primarily on actual results and, at April 30, 2009, included negative future cash flows for one reporting unit. This reporting unit has no recorded goodwill. For the February 28, 2009 and April 30, 2009, goodwill analysis, the cash flow estimates reflect zero growth for all projected future periods.

The Company performed an update of its April 30, 2008 review for goodwill impairment as of February 28, 2009, due to deterioration in overall macroeconomic conditions and the extended decline in the Company's stock price. This review was performed using the methodology described above. Future cash flow projections were based primarily on actual results with budgeted cash flow projections used for one reporting unit. When performing the February 28, 2009 discounted cash flow analysis, no future negative cash flows were projected. This assessment resulted in the recognition of a goodwill impairment charge of $13.8 million at two reporting units: Edelman - $13.0 million and Kissinger - $837,000.

For the April 30, 2010 goodwill analysis, the cash flow estimates reflect 6% revenue growth and 3% expense growth for all entities, other than Edelman entities, which were based on historical growth rates and future forecasts. Edelman reflected higher growth rates of 10% based on the Edelman expansion plan to continue expansion by opening new offices throughout the country. The discount rates utilized in the April 30, 2010 analysis ranged from 13% to 15%. The Company also calculates estimated fair values of the reporting units utilizing multiples of earnings, book value, and assets under management of the reporting unit. The estimated fair value using these techniques is compared with the carrying value of the reporting unit to determine if there is an indication of impairment. A sensitivity analysis was also performed, which did not impact management's conclusion that there is no indication of goodwill impairment.

Management also analyzed the estimated fair values of the reporting units in relation to our market capitalization. The sum of the estimated fair values of the Company's reporting units was greater than the market value of the Company's common stock. Based upon an analysis of historical acquisitions of financial services companies similar to ours, we believe the excess of approximately 40% represents a reasonable control premium in a hypothetical acquisition of the Company.

Remaining amounts of goodwill at December 31, 2010 were as follows: Edelman - $67.2 million, Kissinger - $2.4 million, Dickenson - $2.1 million, SMH Colorado - $1.5 million, Leonetti - $225,000, IFS $409,000, and Global - $10.8 million. Future goodwill impairment tests may result in a future charge to earnings.

Other intangible assets consist primarily of customer relationships and trade names acquired in business combinations. Other intangible assets acquired that have indefinite lives (trade names) are not amortized but are tested for impairment annually, or if certain circumstances indicate a possible impairment may exist. Certain other intangible assets acquired (customer relationships and covenants not to compete) are amortized on a straight line basis over their estimated useful lives and tested for impairment if certain circumstances indicate an impairment may exist. Other intangible assets are tested for impairment by comparing expected future cash flows to the carrying amount of the intangible assets. The Company recognized a trade name impairment of $1.1 million during the quarter ended March 31, 2009. Indefinite lived intangible assets were tested for impairment as of April 30, 2010. Based on the analysis performed as of April 30, 2010, there was no indication of impairment of other intangible assets.

Variable interest entities.

We have adopted accounting changes described in ASC Topic 810, *Consolidation* as of January 1, 2010, which require that the party who has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and who has an obligation to absorb losses of the entity or a right to receive benefits from the entity that could potentially be significant to the entity consolidate the variable interest entity. The changes to ASC 810, effective as of January 1, 2010, eliminate the quantitative approach previously applied to assessing whether to consolidate a variable interest entity and require ongoing reassessments for consolidation.
I

Effects of Inflation

Historically, inflation has not had a material effect on our consolidated financial position, results of operations or cash flows; however, the rate of inflation can be expected to affect our expenses, such as employee compensation, occupancy, and equipment. Increases in these expenses may not be readily recoverable in the prices that we charge for our services. Inflation can have significant effects on interest rates that in turn can affect prices and activities in the financial services market. These fluctuations could have an adverse impact on our financial services operations.

Recent Accounting Pronouncements

See "Note 1 — *Nature of Operations and Summary of Significant Accounting Policies* " in the accompanying notes to consolidated financial statements included elsewhere in this Annual Report on Form 10-K for details of recent accounting pronouncements and their expected impact on the Company's financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market Risk

The following discussion relates to our market risk sensitive instruments as of December 31, 2010.

Our trading equity and debt securities are marked to market on a daily basis. At December 31, 2010, our marketable securities owned were recorded at fair value of $13.8 million. Additionally, securities sold, not yet purchased were recorded at fair value of $10.2 million. These trading equity and debt securities are subject to equity price risk.

Our market making and investing activities often involve the purchase, sale, or short sale of securities and expose our capital to significant risks, including market risk, equity price risk, and credit risk. Market risk represents the potential loss we may incur as a result of absolute and relative price movements, price volatility, and changes in liquidity in financial instruments due to many factors over which we have no control. Our primary market risk arises from the fact that we own a variety of investments that are subject to changes in value and could result in material gains or losses. We also engage in proprietary trading and make dealer markets in equity securities. In doing this, we are required to maintain certain amounts of inventories in order to facilitate customer order flow. We are exposed to equity price risk due to changes in the level and volatility of equity prices primarily in NASDAQ and over-the-counter markets. Changes in market conditions could limit our ability to resell securities purchased or to purchase securities sold short. Direct market risk exposure to changes in foreign exchange rates is not material. We do not use derivatives for speculative purposes.

We seek to cover our exposure to market and equity price risk by limiting our net long and short positions and by selling or buying similar instruments. In addition, trading and inventory accounts are monitored on an ongoing basis, and we have established position limits. Position and exposure reports are prepared at the end of each trading day and are reviewed by traders, trading managers, and management personnel. These reports show the amount of capital committed to various issuers and industry segments. Securities held in our investment portfolio are guided by an investment policy and are reviewed on a regular basis.

Credit risk represents the potential loss due to a client or counterparty failing to perform its contractual obligations, such as delivery of securities or payment of funds, or the value of collateral held to secure obligations proving to be inadequate as related to our margin lending activities. This risk depends primarily on the creditworthiness of the counterparty. We seek to control credit risk by following an established credit approval process, monitoring credit limits, and requiring collateral where appropriate.

We monitor our market and counterparty risk on a daily basis through a number of control procedures designed to identify and evaluate the various risks to which we are exposed. We have established various committees to assess and to manage risk associated with our activities. The committees review, among other things, business and transactional risks associated with potential clients and products to be sold.

Our financial services business is affected by general economic conditions. Our revenue relating to asset-based advisory services and managed accounts is typically from fees based on the market value of assets under management or advisement. Due to the improvement in the overall stock market, assets under management increased, which resulted in higher management fees recorded in “Investment advisory and related services” revenue.

At December 31, 2010, securities owned by the Company were recorded at a fair value of $41.7 million, including $13.8 million in marketable securities, $24.5 million representing our investments in limited partnerships, and $3.4 million representing other not readily marketable securities.

We do not act as dealer, trader, or end-user of complex derivative contracts such as swaps, collars, and caps. However, SMH does act as a dealer and trader of mortgage-derivative securities, called collateralized mortgage obligations (CMOs or REMICs). Mortgage-derivative securities redistribute the risks associated with their underlying mortgage collateral by redirecting cash flows according to specific formulas or algorithms to various tranches or classes designed to meet specific investor objectives.

Operational Risk

Operational risk generally refers to the risk of loss resulting from our operations, including, but not limited to, improper or unauthorized execution and processing of transactions, deficiencies in our operating systems, business disruptions, and inadequacies or breaches in our internal control processes. Our businesses are highly dependent on our and our third party providers’ ability to process, on a daily basis, a large number of transactions across numerous and diverse markets. In addition, the transactions we process have become increasingly complex. If any of our or our third party providers’ financial, accounting, or other data processing systems do not operate properly or are disabled or if there are other shortcomings or failures in our internal processes, people, or systems, we could suffer an impairment to our liquidity, financial loss, a disruption of our businesses, liability to clients, regulatory intervention, or reputational damage. These systems may fail to operate properly or become disabled as a result of events that are wholly or partially beyond our control, including a disruption of electrical or communications services or our inability to occupy one or more of our buildings. The inability of our systems to accommodate an increasing volume of transactions could also constrain our ability to expand our businesses.

We also face the risk of operational failure or termination of any of the clearing agents, exchanges, clearing houses, or other financial intermediaries we use to facilitate our securities transactions. Any such failure or termination could adversely affect our ability to effect transactions and manage our exposure to risk.

In addition, despite the contingency plans we have in place, our ability to conduct business may be adversely impacted by a disruption in the infrastructure that supports our businesses and the communities in which they are located. This may include a disruption involving electrical, communications, transportation, or other services used by us or third parties with which we conduct business.

Our operations rely on the secure processing, storage, and transmission of confidential and other information in our computer systems and networks. Although we take protective measures and endeavor to modify them as circumstances warrant, our computer systems, software, and networks may be vulnerable to unauthorized access, computer viruses, or other malicious code, and other events that could have a 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 or not fully covered through any insurance maintained by us.

Legal and Compliance Risk

Legal and compliance risk includes the risk of non-compliance with applicable legal and regulatory requirements. We are subject to extensive regulation in the different jurisdictions in which we conduct our business. We have various procedures addressing issues such as regulatory capital requirements, sales and trading practices, use of and safekeeping of customer funds, credit granting, collection activities, anti-money laundering, and record keeping..

New Business Risk

New business risk refers to the risk of entering into a new line of business or offering a new product. By entering a new line of business or offering a new product, we may face risks that we are unaccustomed to dealing with and may increase the magnitude of the risks we currently face. We review proposals for new businesses and new products to determine if we are prepared to handle the additional or increased risks associated with entering into such activities.

Other Risks

Other risks encountered by us include political, regulatory, and tax risks. These risks reflect the potential impact that changes in national, state, and local laws and tax statutes have on the economics and viability of current or future transactions. In an effort to mitigate these risks, we continuously review new and pending regulations and legislation and participate in various industry interest groups.

Item 8. Financial Statements and Supplementary Data

SANDERS MORRIS HARRIS GROUP INC. AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Sanders Morris Harris Group Inc.

We have audited the accompanying consolidated balance sheets of Sanders Morris Harris Group Inc. (a Texas Corporation) and subsidiaries (collectively, the " Company ") as of December 31, 2010 and 2009, and the related consolidated statements of operations, changes in equity, and cash flows for each of the two years in the period ended December 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sanders Morris Harris Group Inc. and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the Company adopted new accounting guidance on January 1, 2010 related to the evaluation of variable interest entities and consolidation. In addition, the Company adopted new accounting guidance on January 1, 2009 related to the accounting and reporting of noncontrolling interest in the consolidated financial statements.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Sanders Morris Harris Group Inc.'s internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 16, 2011 expressed an unqualified opinion and exclusion of Global Financial Services, LLC and GFS Advisors, LLC.

/s/ GRANT THORNTON LLP

Houston, Texas
March 16, 2011

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Sanders Morris Harris Group Inc.

We have audited the accompanying consolidated statements of operations, changes in equity, and cash flows of Sanders Morris Harris Group Inc. and subsidiaries (the Company) for the year ended December 31, 2008. These consolidated financial statements are the responsibility of the Company ' s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of Sanders Morris Harris Group Inc. and subsidiaries for the year ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Houston, Texas
March 16, 2009, except as to note 1, which is as of December 10, 2009, and note 23, which is as of March 16, 2010.

SANDERS MORRIS HARRIS GROUP INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	December 31, 2010	December 31, 2009
ASSETS		
Cash and cash equivalents	$ 44,521	$ 40,455
Restricted cash	769	1,471
Receivables, net	112,768	113,072
Deposits with clearing organizations	2,963	2,527
Securities owned	41,691	39,380
Furniture, equipment, and leasehold improvements, net	11,877	14,617
Other assets and prepaid expenses	2,886	2,863
Goodwill, net	84,713	73,455
Other intangible assets, net	63,704	32,198
Total assets	$ 365,892	$ 320,038
LIABILITIES AND EQUITY		
Liabilities:		
Accounts payable and accrued liabilities	$ 43,447	$ 35,357
Borrowings	24,995	20,238
Deferred tax liability, net	22,850	15,455
Securities sold, not yet purchased	10,242	8,339
Payable to broker-dealers and clearing organizations	-	22
Total liabilities	101,534	79,411
Commitments and contingencies		
Equity:		
Preferred stock, $0.10 par value; 10,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, $0.01 par value; 100,000,000 shares authorized; 30,544,092 and 29,882,238 shares issued, respectively	305	299
Additional paid-in capital	244,674	240,450
Accumulated deficit	(11,803)	(16,555)
Treasury stock, at cost, 1,207,193 shares and 0 shares, respectively	(6,555)	-
Total Sanders Morris Harris Group Inc. shareholders' equity	226,621	224,194
Noncontrolling interest	37,737	16,433
Total equity	264,358	240,627
Total liabilities and equity	$ 365,892	$ 320,038

The accompanying notes are an integral part of these consolidated financial statements.

SANDERS MORRIS HARRIS GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	Year Ended December 31, 2010	2009	2008
Revenue:			
Investment advisory and related services	$ 96,729	$ 72,005	$ 73,759
Commissions	33,298	36,591	48,876
Investment banking	3,978	2,455	2,251
Principal transactions	18,196	35,094	28,958
Interest and dividends	10,257	10,702	6,726
Other income	6,385	7,393	11,371
Total revenue	168,843	164,240	171,941
Expenses:			
Employee compensation and benefits	100,077	97,805	104,995
Floor brokerage, exchange, and clearance fees	3,832	5,183	6,469
Communications and data processing	11,396	9,743	10,027
Occupancy	13,019	11,166	10,041
Interest	1,753	2,691	147
Goodwill and other intangible assets impairment charges	-	14,575	56,698
Amortization of intangible assets	1,780	1,563	777
Other general and administrative	26,475	23,596	23,142
Total expenses	158,332	166,322	212,296
Income (loss) from continuing operations before equity in income (loss) of limited partnerships and income taxes	10,511	(2,082)	(40,355)
Equity in income (loss) of limited partnerships	12,894	(1,348)	38,631
Gain on step acquisition	-	3,000	-
Income (loss) from continuing operations before income taxes	23,405	(430)	(1,724)
Provision (benefit) for income taxes	7,173	(1,578)	11,699
Income (loss) from continuing operations, net of income taxes	16,232	1,148	(13,423)
Loss from discontinued operations, net of income taxes of $(446), ($1,082), and ($3,007), respectively	(697)	(1,518)	(4,974)
Net income (loss)	15,535	(370)	(18,397)
Less: Net income attributable to the noncontrolling interest	(5,839)	(5,112)	(6,896)
Net income (loss) attributable to Sanders Morris Harris Group Inc.	$ 9,696	$ (5,482)	$ (25,293)
Basic earnings (loss) per common share:			
Continuing operations	$ 0.35	$ (0.14)	$ (0.75)
Discontinued operations	(0.02)	(0.05)	(0.19)
Net earnings (loss)	$ 0.33	$ (0.19)	$ (0.94)
Diluted earnings (loss) per common share:			
Continuing operations	$ 0.35	$ (0.14)	$ (0.75)
Discontinued operations	(0.02)	(0.05)	(0.19)
Net earnings (loss)	$ 0.33	$ (0.19)	$ (0.94)
Weighted average common shares outstanding:			
Basic	29,203	28,402	26,972
Diluted	29,370	28,402	26,972
Amounts attributable to Sanders Morris Harris Group Inc. common shareholders:			
Income (loss) from continuing operations, net of income taxes	$ 10,393	$ (3,964)	$ (20,319)
Discontinued operations, net of income taxes	(697)	(1,518)	(4,974)
Net income (loss)	$ 9,696	$ (5,482)	$ (25,293)

The accompanying notes are an integral part of these consolidated financial statements.

SANDERS MORRIS HARRIS GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(in thousands, except shares and per share amounts)

	Amounts						Shares		
	Year Ended December 31,						Year Ended December 31,		
	2010		2009		2008		2010	2009	2008
Common stock									
Balance, beginning of year	$ 299		$ 292		$ 258		29,882,238	29,207,962	25,765,806
Sale of stock and warrants	-		3		-		-	277,715	-
Stock issued for acquisition	5		1		28		476,871	52,901	2,859,996
Stock issued pursuant to stock-based compensation plan	1		3		6		184,983	343,660	582,160
Balance, end of year	305		299		292		30,544,092	29,882,238	29,207,962
Additional paid-in capital									
Balance, beginning of year	240,450		234,578		204,596				
Sale of stock and warrants	-		2,649		-				
Cash settlement of stock options	(140)		-		-				
Stock issued for acquisition	2,394		(96)		23,905				
Unearned stock-based compensation	152		336		-				
Stock issued pursuant to stock-based compensation plan; including tax benefit	236		239		3,171				
Tax adjustment related to stock-based compensation plan	(288)		(999)		-				
Stock-based compensation expense	1,870		3,743		2,906				
Balance, end of year	244,674		240,450		234,578				
Retained earnings (accumulated deficit)									
Balance, beginning of year	(16,555)		(5,895)		23,422				
Cumulative effect of adoption of a new accounting principle	483		-		893				
Cash dividends declared ($0.185 per share in 2010, $0.180 per share in 2009 and 2008)	(5,427)		(5,178)		(4,917)				
Net income (loss) attributable to Sanders Morris Harris Group Inc.	9,696	9,696	(5,482)	(5,482)	(25,293)	(25,293)			
Balance, end of year	(11,803)	9,696	(16,555)	(5,482)	(5,895)	(25,293)			
Accumulated other comprehensive income (loss)									
Balance, beginning of year	-		-		161				
Net change in unrealized appreciation on securities available for sale	-	-	-	-	(267)	(267)			
Income tax benefit on change in unrealized appreciation on securities available for sale	-	-	-	-	106	106			
Balance, end of year	-	-	-	-	-	(161)			
Comprehensive income (loss)		9,696		(5,482)		(25,454)			
Treasury stock									
Balance, beginning of year	-		(6,421)		(5,259)		-	(1,049,085)	(929,285)
Sale of stock	-		4,848		-		-	793,714	-
Stock issued for acquisition	-		1,601		-		-	262,180	-
Acquisition of treasury stock	(6,555)		(28)		(1,162)		(1,207,193)	(6,809)	(119,800)
Balance, end of year	(6,555)		-		(6,421)		(1,207,193)	-	(1,049,085)
Noncontrolling interest									
Balance, beginning of year	16,433		8,805		20,105				
Purchase of membership interest from noncontrolling interest	19,646		7,200		(77)				
Cumulative effect of adoption of a new accounting principle	(584)		-		-				
Disposition of minority interest	(721)		-		-				
Sale of membership interest to noncontrolling interest	-		-		(1,614)				
Contributions	1		40		-				
Distributions	(2,877)		(4,724)		(16,505)				
Net income attributable to the noncontrolling interest	5,839		5,112		6,896				
Balance, end of year	37,737		16,433		8,805				
Total equity and common shares outstanding	$ 264,358		$ 240,627		$ 231,359		29,336,899	29,882,238	28,158,877

The accompanying notes are an integral part of these consolidated financial statements.

SANDERS MORRIS HARRIS GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31, 2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ 15,535	$ (370)	$ (18,397)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Realized gain on securities available for sale	-	-	(205)
(Gain) loss on sales of assets	(1,199)	(8,770)	88
Depreciation	4,399	4,378	3,931
Provision for bad debts	2,164	2,642	1,180
Stock-based compensation expense	1,870	3,743	2,906
Goodwill and other intangible assets impairment charges	-	14,575	56,471
Amortization of intangible assets	1,780	1,563	1,004
Deferred income taxes	7,395	922	14,501
Equity in (income) loss of limited partnerships	(12,894)	1,348	(38,631)
Gain on step acquisition	-	(3,000)	-
Unrealized and realized (gains) losses on not readily marketable securities owned, net	(924)	(1,402)	6,180
Not readily marketable securities owned received for payment of investment banking fees	-	(21)	(581)
Net change in:			
Restricted cash	702	(1,471)	-
Receivables	(992)	7,741	3,142
Deposits with clearing organizations	564	(1,465)	33
Marketable securities owned	8,949	10,950	(3,433)
Other assets and prepaid expenses	(578)	(202)	(740)
Accounts payable and accrued liabilities	191	(3,687)	3,007
Securities sold, not yet purchased	1,903	(4,545)	(2,548)
Payable to broker-dealers and clearing organizations	(22)	(2,029)	(922)
Net cash provided by operating activities	28,843	20,900	26,986
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(2,971)	(2,676)	(7,939)
Acquisitions, net of cash acquired of $844, $210, and $0, respectively	(14,943)	(33,972)	(29,080)
Effects of adoption of new pronouncements	344	-	-
Proceeds from sales and maturities of securities available for sale	-	-	697
Purchases of not readily marketable securities owned	(196)	(2,352)	(1,369)
Notes issued to Concept Capital Holding, LLC	(1,655)	-	-
Proceeds from sales of not readily marketable securities owned	3,144	10,858	12,477
Proceeds from sales of assets	2,452	806	289
Net cash used in investing activities	(13,825)	(27,336)	(24,925)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Purchases of treasury stock	(6,555)	(28)	(1,162)
Proceeds from sale of stock and warrants	-	7,500	-
Proceeds from stock issued pursuant to stock-based compensation plan	234	225	2,795
Tax benefit of stock options exercised	4	17	382
Tax adjustment related to stock-based compensation plan	(289)	(999)	-
Cash settement of stock options	(140)	-	-
Proceeds from borrowings	11,900	25,000	250
Repayment of borrowings	(7,143)	(4,762)	(450)
Debt issuance costs	(61)	(502)	-
Disposition of minority interest	(721)	-	-
Contributions by noncontrolling interest	1	40	-
Distributions to noncontrolling interest	(2,877)	(4,724)	(16,505)
Payments of cash dividends	(5,305)	(5,100)	(3,650)
Net cash provided by (used in) financing activities	(10,952)	16,667	(18,340)
Net increase (decrease) in cash and cash equivalents	4,066	10,231	(16,279)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	40,455	30,224	46,503
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 44,521	$ 40,455	$ 30,224

The accompanying notes are an integral part of these consolidated financial statements.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Sanders Morris Harris Group Inc. ("SMHG" or "the Company") provides a broad range of financial and other professional services, including wealth management (including investment advice and management, financial planning, sports representation and management), investment and merchant banking, and institutional services (including institutional sales and trading, prime brokerage services, and research). The Company's operating subsidiaries include Sanders Morris Harris Inc. (formerly SMH Capital Inc.) ("SMH"), SMH Capital Advisors, Inc. ("SMH Capital Advisors"), The Edelman Financial Center, LLC ("Edelman"), The Dickenson Group, LLC ("Dickenson"), The Rikoon Group, LLC ("Rikoon"), Leonetti & Associates, LLC ("Leonetti"), Miller-Green Financial Services, Inc. ("Miller-Green"), Kissinger Financial Services, a division of SMH, ("Kissinger"), Select Sports Group, Ltd. ("SSG"), Investor Financial Solutions Group of California ("IFS"), and Global Financial Services, LLC ("GFS BD") and GFS Advisors, LLC ("GFS IA") (collectively, "Global"). The Company serves a diverse group of institutional, corporate, and individual clients.

The Company merged with and acquired its operating subsidiaries from 1999 through 2010. The acquisitions were accounted for using the purchase method through 2008 and the acquisition method beginning in 2009 and, accordingly, results of an acquired entity are included in the Company's consolidated financial statements from the date of acquisition. As a result, the current period results are not comparable to the prior periods. See "Note 2 — *Acquisitions and Dispositions.* "

During the first quarter of 2009, the Company closed three retail offices. The operating results for these offices are included in "Loss from discontinued operations, net of income taxes", and are excluded from the segment disclosures for all periods presented. During the fourth quarter of 2009, SMH contributed to Madison Williams Capital, LLC ("Madison Williams") the assets, properties, working capital, and rights related and/or pertaining to its investment banking, institutional trading (including equity sales and fixed income sales), New York trading, and research businesses (excluding The Juda Group and the Concept Capital divisions) (the "Capital Markets Business") in exchange for a 17.5% Class A membership interest in Madison Williams, cash, and a note issued by Madison Williams to the Company. The operating results for the Capital Markets Business are included in "Loss from discontinued operations, net of income taxes", and are excluded from the segment disclosures for 2009 and 2010.

On March 1, 2010, the Company entered into an agreement with the principals of the Concept Capital division of SMH ("Concept"), in which we agreed to contribute certain of the assets, properties, and other rights of the Company pertaining to Concept to Concept Capital Markets, LLC ("CCM"), a wholly-owned subsidiary of Concept Capital Holdings, LLC ("CCH"), and Concept Capital Administration, LLC ("CCAdmin"), two new entities formed by the principals of Concept. The Washington Research Group of Concept was sold during the fourth quarter of 2010 prior to the spin-off of Concept. The operating results for the Washington Research Group are included in "Loss from discontinued operations, net of income taxes", and are excluded from the segment disclosures for all periods presented.

After the spin-off transaction closed on December 31, 2010, the Company retained a 24% capital interest and 43.48% profit and loss interest in CCH and a 43.48% member interest in CC Admin. The terms of the transaction provide that the Company retains 50% of the cash and cash equivalents and investment positions held by the division at closing. Current members of management of the division will retain the remaining interests in the new entities. Due to the Company's significant continuing involvement in Concept, results from operations of Concept are included within continuing operations. SMH will continue to provide services to Concept based on a service agreement signed between the entities in 2010 until CCM can secure a significant clearing agreement.

Principles of Consolidation

The consolidated financial statements of the Company include the accounts of its subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation.

In June 2009, the Financial Accounting Standards Board ("FASB") amended its guidance on accounting for variable interest entities ("VIE"). The new accounting guidance resulted in a change in our accounting policy effective January 1, 2010. Among other things, the new guidance requires more qualitative than quantitative analyses to determine the primary beneficiary of a VIE, requires continuous assessments of whether an enterprise is the primary beneficiary of a VIE, and amends certain guidance for determining whether an entity is a VIE. Under the new guidance, a VIE must be consolidated if an enterprise has both (a) the power to direct the activities of the VIE that most significantly impact the entity's economic performance and (b) the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE. This new accounting guidance was effective and implemented for the Company on January 1, 2010, and is being applied prospectively.

On January 1, 2010, we deconsolidated an investment in one of the Company’s limited partnerships as a result of this change in accounting policy. This entity had previously been consolidated due to the level of financial support provided by the Company. It was determined that the Company does not have the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance. Consequently, subsequent to the change in accounting policy, the Company deconsolidated this entity. The Company has accounted for this limited partnership investment at fair value since January 1, 2010. This investment will now be on the balance sheet, within securities owned at fair value, with the change in fair value included in equity in income of limited partnerships on the Consolidated Statement of Operations. In prior periods, this entity’s results, assets, and liabilities were reflected in each of the Company’s line items in the Statement of Operations and Statement of Financial Condition. The Company recorded a $4.6 million cumulative adjustment to retained earnings that represents the fair value of this limited partnership at January 1, 2010. The fair value of this investment is $9.9 million at December 31, 2010, and is recorded in Securities Owned. Another VIE was identified by management that the Company does not have the power to direct the activities; therefore, this investment remains unconsolidated as of December 31, 2010. The fair value of this investment is $906,000 at December 31, 2010, and is recorded in Securities Owned. The Company has no requirement to provide additional funding to these entities.

In addition, the Company concluded that it was a primary beneficiary of two VIEs at January 1, 2010. The Company has a 50.5% direct ownership in one of these entities and a 65% direct ownership in the other. These entities are professional sports agencies that assist professional athletes with contract negotiation, marketing, and public relations. Based upon the continued level of financial support provided by the Company, it was determined that the Company has the power to direct the activities that significantly impact these entities’ economic performance and has the obligation to absorb the significant losses and receive benefits related to these entities due to its increased support. The Company intends to provide additional financial support when necessary in the future. The Company has provided $765,000 in financial support as of December 31, 2010, which has been eliminated in consolidation. The results of these entities have been included in the Condensed Consolidated Statements of Operations since January 1, 2010. The carrying amounts of the assets and liabilities consolidated at January 1, 2010 are as follows:

Total assets	$733,000
Total liabilities	34,000
Noncontrolling interest	490,000

The creditors and/or beneficial holders of the consolidated VIEs do not have recourse to the general credit of the Company.

Management's Estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of consolidated assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the amounts of revenue and expenses during the reporting periods. The most significant estimates used by the Company relate to contingencies and the valuation of not readily marketable securities, goodwill, and stock based compensation awards. Actual results could differ from those estimates.

Cash Equivalents

Highly liquid debt instruments with original maturities of three months or less when purchased are considered to be cash equivalents. SMH and GFS BD, the Company’s broker-dealer subsidiaries, are subject to the regulations of the Securities and Exchange Commission that, among other things, may restrict the withdrawal of cash held at SMH and GFS BD’s clearing firms that are used to collateralize SMH and GFS BD’s trading accounts. Cash restricted due to escrow accounts related to a loan and compensating balances for letters of credit are classified as Restricted cash and not included in Cash equivalents in the Consolidated Balance Sheets.

Receivables

Receivables are stated at their net realizable value. Interest income is recognized using the effective interest method over the life of the related receivable. If a receivable is noninterest-bearing or carries an unreasonable rate of interest and is not due within one year, the Company will impute interest at an appropriate market rate for comparable instruments and record a corresponding discount.

We offer transition pay, principally in the form of upfront notes receivable ("broker notes"), to financial advisors and certain key revenue producers as part of our Company's overall growth strategy. These broker notes are generally forgiven by a charge to employee compensation and benefits over a one to six year period if the individual satisfies certain conditions, usually based on continued employment and certain performance standards. If the individual leaves before the term of the broker note expires or fails to meet certain performance standards, the individual is required to repay the balance. In determining the allowance for doubtful accounts from former employees, management considers the facts and circumstances surrounding each receivable, including the amount of the unforgiven balance, the reasons for the terminated employment relationship, and the former employee's overall financial position.

Management monitors receivables for any collectability issues. The Company does not typically require collateral. Receivables are considered past due when payment is not received in accordance with the contractual terms on the invoice or agreement and generally 90 days past due. The accrual of interest on receivables is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. When the interest accrual is discontinued, all uncollected accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of the remaining past-due principal balance. Receivables are returned to accrual status when payments are brought current and, in management's judgment, the receivable will continue to pay as agreed. An allowance for doubtful accounts is established based on reviews of individual customer accounts, recent loss experience, current economic conditions, and other pertinent factors. Accounts deemed uncollectible are charged to the allowance.

Securities Owned and Securities Sold, Not Yet Purchased

Marketable securities are carried at market value based on quoted market prices. Not readily marketable securities are valued at fair value based on either internal valuation models or management's estimate of amounts that could be realized under current market conditions assuming an orderly liquidation over a reasonable period of time. Unrealized gains or losses from marking securities owned to fair value or estimated fair value are included in revenue under the caption "Equity in income (loss) of limited partnerships." Unrealized gains or losses from marking warrants and marketable securities owned to estimated fair value are included in revenue under the caption "Principal transactions." Securities not readily marketable include securities: (a) for which there is no market on a securities exchange or no independent publicly quoted market, (b) that cannot be publicly offered or sold unless registration is effected under the Securities Act of 1933 or other applicable securities acts, or (c) that cannot be offered or sold because of other arrangements, restrictions, or conditions applicable to the securities or to the Company. Changes in fair value of the underlying funds which drive the change in net asset value and our equity method earnings pickup are included in the caption "Equity in income (loss) of limited partnerships" in the Consolidated Statements of Operations. Regular-way proprietary securities transactions and the related income/expense are recorded on trade date basis. Nonregular-way transactions are recorded on settlement basis. Realized gains and losses from sales of securities are computed using the average cost method and are included in revenue in the caption "Principal transactions."

Investments in not readily marketable securities, marketable securities with insufficient trading volumes, and restricted securities have been valued at their estimated fair value by the Company in the absence of readily ascertainable market values. These estimated values may differ significantly from the values that would have been used had a readily available market existed for these investments. Such differences could be material to the financial statements. These estimated values may differ significantly from the values that would have been used had a readily available market existed for these investments. Such differences could be material to the financial statements. At December 31, 2010 and 2009, the Company's investment portfolios included investments totaling $27.9 million and $22.8 million, respectively, whose values had been estimated by the Company in the absence of readily ascertainable market values.

Investments in companies and partnerships in which we have significant influence are accounted for by the equity method, which approximates fair value. Investments in companies and partnerships in which we do not have significant influence are accounted for at cost and evaluated for impairment when impairment indicators are present. No such indicators were present at December 31, 2010 and 2009.

Furniture, Equipment, and Leasehold Improvements

Furniture, equipment, and leasehold improvements are carried at cost, net of accumulated depreciation. Depreciation of furniture and equipment is computed on a straight line basis over a three to seven year period. Amortization of leasehold improvements is computed on a straight line basis over the shorter of the term of the lease or useful life. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the aggregate purchase price over the fair value of the net assets acquired in a business combination. Goodwill is reviewed for impairment at least annually in accordance with the provisions of the FASB Accounting Standards Codification ("ASC") Topic 350, *Intangibles – Goodwill and Other* . ASC Topic 350 requires that goodwill be tested for impairment between annual test dates if an event or changing circumstances indicate that it is more likely than not that the fair value of the reporting unit is below its carrying amount. The goodwill impairment test is a two-step test. Under the first step, the fair value of the reporting unit is compared with its carrying value (including goodwill and other intangible assets). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the enterprise must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation, in accordance FASB ASC Topic 805, *Business Combinations* . The residual fair value after this allocation is the implied fair value of the reporting unit goodwill.

Factors considered in determining fair value include, among other things, the Company's market capitalization as determined by quoted market prices for its common stock and the value of the Company's reporting units. The Company uses several methods to value its reporting units, including discounted cash flows, comparisons with valuations of public companies in the same industry, and multiples of assets under management. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed.

Other intangible assets consist primarily of customer relationships and trade names acquired in business combinations. Other intangible assets acquired that have indefinite lives (trade names) are not amortized but are tested for impairment annually, or if certain circumstances indicate a possible impairment may exist. Certain other intangible assets acquired (customer relationships and covenants not to compete) are amortized on a straight line basis over their estimated useful lives and tested for impairment if certain circumstances indicate an impairment may exist.

Stock-Based Compensation

Stock-based compensation awards are measured based on the grant-date fair value of the award and recognized over the period from the service inception date through the date the employee is no longer required to provide service to earn the award. Expected forfeitures are included in determining stock-based compensation expense.

Income Taxes

The Company utilizes the asset and liability method for deferred income taxes. This method requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events recognized in the Company's financial statements or tax returns. All expected future events other than changes in the law or tax rates are considered in estimating future tax consequences.

The Company utilizes a two-step approach to evaluate uncertain tax positions. Recognition, step one, requires evaluation of the tax position to determine if based solely on technical merits it is more likely than not to be sustained upon examination. Measurement, step two, is addressed only if a position is more likely than not to be sustained. In step two, the tax benefit is measured as the largest amount of benefit, determined on a cumulative probability basis, which is more likely than not to be realized upon ultimate settlement with tax authorities. If a position does not meet the more likely than not threshold for recognition in step one, no benefit is recorded until the first subsequent period in which the more likely than not standard is met, the issue is resolved with the taxing authority, or the statute of limitations expires. Positions previously recognized are derecognized when we subsequently determine the position no longer is more likely than not to be sustained. Evaluation of tax positions, their technical merits, and measurement using cumulative probability are highly subjective management estimates. Actual results could differ materially from these estimates.

The Company remains subject to examination by U.S. federal and state jurisdictions, as well as international jurisdictions for years subsequent to 2007 and 2006, and upon completion of these examinations (if undertaken by the taxing jurisdictions) tax adjustments may be necessary and retroactive to all open tax years.

The provision for income taxes includes federal, state, and local income taxes currently payable and those deferred because of temporary differences between the financial statements and tax bases of assets and liabilities. The Company recognizes interest accrued related to unrecognized tax benefits in interest expense. Penalties and related interest, if any, are recognized in other general and administrative expense.

The Company recognizes and measures tax positions based on the individual tax position's amount expected to be sustained upon settlement with the tax authority.

Commissions

Commissions and related clearing expenses are recorded on the trade date as securities transactions occur.

Investment Banking

Investment banking revenue includes sales credits earned on investment banking transactions including participation in syndicates. Investment banking sales concessions are recorded on settlement date.

Investment Advisory and Related Services

Revenue from investment advisory and related services consists primarily of portfolio and partnership management fees. Portfolio management fees are received quarterly and are recognized as earned on a monthly basis. Partnership management fees are received quarterly and are recognized as earned on a monthly basis.

Fair Values of Financial Instruments

The fair values of cash and cash equivalents, receivables, deposits with clearing organizations, other assets and prepaid expenses, accounts payable and accrued liabilities, and payables to broker-dealers approximate cost due to the short period of time to maturity. Securities owned, and securities sold, not yet purchased are carried at their fair values. The carrying amount of our borrowings approximates fair value because the interest rate is variable and, accordingly, approximates current market rates.

Sale of Stock and Warrants

On December 16, 2009, the Company sold, for a purchase price of $7.5 million, 1,071,429 shares of common stock and a warrant to purchase common shares in an aggregate value of up to $7.5 million to Fletcher International, Ltd. The warrant entitles the holder to purchase shares of the Company's common stock for a period of ten years from the date of issuance at an exercise price of $5.75 per share. The proceeds from this sale were used to repay the subordinated promissory note issued in connection with the acquisition of Edelman Financial Advisors, LLC ("EFA").

Advertising Expense

Advertising expense is expensed as incurred and included in "Other general and administrative" within the Consolidated Statements of Operations. Advertising expense for 2010, 2009 and 2008 was $3.9 million, $3.0 million, and $654,000, respectively.

New Authoritative Accounting Guidance

ASU No. 2010-20, Receivables (Topic 310) – Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses, enhances disclosures about the credit quality of a creditor's financing receivables and the adequacy of its allowance for credit losses. Public entities must apply the disclosure requirements applicable to period-end balances beginning with the first annual reporting period ending on or after December 31, 2010, of which the company implemented as of December 31, 2010. The Company's disclosures about activity in the allowance for credit losses by portfolio segment during a reporting period will be required in the first interim period of 2011. The Company does not expect that the remaining required disclosures will be significant to the Company's notes to the financial statements.

ASU No. 2010-29, Goodwill – When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts, amends ASC 350, *Intangibles – Goodwill and Other* , which modifies goodwill impairment testing for reporting units with a zero or negative carrying amount. An entity must consider whether it is more likely than not that a goodwill impairment exists for reporting units with a zero or negative carrying amount. If it is more likely than not that a goodwill impairment exists, the second step of the goodwill impairment test must be performed to measure the amount of goodwill impairment loss, if any. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2010 and early adoption is not permitted. The Company does not expect a material impact on the Company's consolidated financial statements, upon implementation.

ASU No. 2010-29, Business Combinations – Disclosure of Supplementary Pro Forma Information, addresses the diversity in practice of the presentation of pro forma information for business combinations. Under the amended guidance, a public entity that presents comparative financial statements must disclose the pro forma revenue and earnings of the combined entity as though the business combination had occurred as of the beginning of the prior annual reporting period. The amended guidance will be effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The Company expects the amended guidance to impact its disclosures in future periods, but to otherwise not have an impact on the Company's consolidated financial statements.

2. ACQUISITIONS AND DISPOSITIONS

Acquisitions

On January 1, 2010, the Company completed the acquisition of a 51% interest in Investor Financial Solutions, LLC ("IFS"), a wealth management firm based in Huntington Beach, California for consideration of $1.0 million, $750,000 of which was payable at acquisition with the remainder, subject to adjustment based on gross revenue of IFS during the three months ended June 30, 2011, payable in July 2011. The additional purchase price is expected to be between $0 and $250,000. The liability for the additional purchase price was recorded at its January 1, 2010 fair value of $204,000. The acquisition-related costs of the IFS acquisition were not material, as internal legal counsel was utilized for this acquisition.

The IFS acquisition was accounted for using the acquisition method and, accordingly, the financial information of IFS has been included in the Company's Consolidated Financial Statements from December 31, 2010. The fair value of the consideration exceeded the fair market value of identifiable net tangible assets by $954,000, $409,000 of which has been recorded as goodwill, $955,000 of which has been recorded as other intangible assets, and $410,000 of which has been recorded as noncontrolling interest . The valuation techniques used to measure the fair value of the noncontrolling interest include income and market-guideline public company approaches . Goodwill is measured as the excess of the cash consideration over fair value of net assets acquired, including identifiable intangible assets, including $40,000 for assembled workforce. Goodwill represents the value expected from the synergies and economies of scale created from combining the IFS asset wealth business with our full-service firm. All of the goodwill associated with the IFS acquisition is expected to be deductible for tax purposes. The acquisition was conducted in an arm's length transaction to expand the Company's high net worth business.

On December 31, 2010, the Company acquired a 48.7% capital interest and 50.1% profits interest in GFS BD and a 50.1% capital and profits interest in GFS IA, wealth management firms, pursuant to the terms of a Purchase Agreement dated as of November 26, 2010, among the Company and the prior owners of Global. The acquisition was conducted in an arm's length transaction to expand the Company's high net worth business.

The initial consideration for the Global purchase was $18.0 million, of which $15.0 million was paid in cash and $3.0 million was paid in shares of SMHG common stock, with a fair value on acquisition date of $2.4 million, including a discount for a twelve month lock-up period on the stock issued. The initial consideration is subject to upward adjustment by a maximum amount of $4.5 million based on Global achieving adjusted EBITDA in 2011 and/or 2012 in excess of $5.0 million, and further upward adjustment based on the compounded annual growth rate of Global's EBITDA achieved in 2012, 2013, and 2014, for a maximum of $9.6 million if the top tier thresholds are achieved. The fair value of the earn out and CAGR future consideration is $7.9 million at December 31, 2010, and is recorded as a liability in the Company's Consolidated Balance Sheet. The total fair value of consideration was $25.3 million, which exceeded the fair value of the net assets acquired.

Consideration paid:		
Cash consideration	$	15,000
Equity consideration		2,399
Earnout and CAGR future consideration		7,928
Total consideration paid	$	25,327
Recognized assets and liabilities:		
Cash	$	844
Receivables, net		735
Deposits with clearing organizations		1,000
Furniture, equipment and leasehold improvements, net		347
Other intangible assets, net		32,331
Indemnification asset		282
Accounts payable and accrued liabilities		(1,788)
Total identifiable net assets	$	33,751
Goodwill	$	10,812
NonControlling Interest	$	(19,236)

The valuation techniques used to measure the fair value of the noncontrolling interest included the income and market-guideline public company approaches. Discounts for lack of control and marketability were applied to determine fair value.

In addition to the net assets acquired, an indemnification asset was recognized as of December 31, 2010 for the indemnification of SMHG for uncertain tax liability payments that resulted from tax years before 2010. An asset in the amount of $282,000 was recorded, in the same amount of the corresponding uncertain tax liability recorded by Global as of December 31, 2010, and is included in "Receivables, net."

Goodwill including $1.4 million for assembled workforce represents the value expected from the synergies and economies of scale created from combining Global ' s broker-dealer and advisory businesses with our full-service firm. All of the goodwill associated with the Global acquisition is expected to be deductible for tax purposes. The acquisition was conducted in an arm's length transaction to expand the Company's high net worth business. The acquisition-related costs were $33,000, and is included as an expense in the Consolidated Statements of Operations.

The Global acquisition was accounted for using the acquisition method and, accordingly, the financial information of Global has been included in the Company's consolidated financial statements from December 31, 2010. The pro forma combined historical results as if the Global acquisition had been included in operations commencing January 1, 2009 are as follows (unaudited):

	Year Ended December 31,			
	2010		2009	
	(in thousands, except per share amounts)			
Total revenue	$	187,779	$	191,224
Net income attributable to				
Sanders Morris Harris Group Inc.		10,731		(3,473)
Earnings (loss) per common share:				
Basic	$	0.37	$	(0.12)
Diluted	$	0.37	$	(0.12)

On April 1, 2008, the Company acquired 100% of Miller-Green for cash consideration of $3.0 million. At acquisition, Miller-Green, based in The Woodlands, Texas, managed approximately $400.0 million in assets. The acquisition was accounted for as a purchase and, accordingly, the financial information of Miller-Green has been included in the Company's consolidated financial statements from April 1, 2008. The consideration exceeded the fair market value of identifiable net tangible assets by $3.0 million, which has been recorded as other intangible assets.

On February 29, 2008, the Company acquired a 50.1% membership interest in Leonetti for consideration of $5.75 million paid in a combination of cash and shares of the Company's common stock. The Company agreed to purchase additional 10% membership interests in March 2013, 2014, and 2015, payable in a combination of cash and shares of the Company's common stock. The purchase price for the additional membership interests will be based on a multiple of the net income of Leonetti for the previous year. At acquisition, Leonetti, based in Buffalo Grove, Illinois, managed approximately $400.0 million in assets. The acquisition was accounted for as a purchase and, accordingly, the financial information of Leonetti has been included in the Company's consolidated financial statements from February 29, 2008. The consideration exceeded the fair market value of identifiable net tangible assets by $6.1 million, $2.0 million of which has been recorded as goodwill and $4.1 million of which has been recorded as other intangible assets.

On September 14, 2007, the Company acquired a 50.1% interest in Dickenson, an insurance agency with four registered agents based in Solon, Ohio. The acquisition was accounted for as a purchase and, accordingly, the financial information of Dickenson has been included in the Company's consolidated financial statements from September 14, 2007. The consideration of $6.0 million, consisting of a combination of cash and shares of the Company's common stock, exceeded the fair market value of identifiable net tangible assets by $6.0 million, $4.6 million of which has been recorded as goodwill and $1.4 million of which has been recorded as other intangible assets.

On May 24, 2007, the Company acquired a 75% interest in Rikoon for cash consideration of $6.0 million of which $1.3 million was recorded as compensation expense. The Company agreed to purchase an additional 5% interest in January 2011 for cash consideration of $3.0 million. At acquisition, Rikoon, based in Santa Fe, New Mexico, managed approximately $400.0 million in assets. The acquisition was accounted for as a purchase and, accordingly, the financial information of Rikoon has been included in the Company's consolidated financial statements from May 24, 2007. The consideration exceeded the fair market value of identifiable net tangible assets by $4.4 million, which has been recorded as other intangible assets.

On May 10, 2005, the Company acquired a 51% interest in Edelman, one of the leading financial planning firms in the country. Edelman, based in Fairfax, Virginia, manages approximately $6.0 billion in assets. On May 12, 2008, the Company purchased an additional 25% membership interest in Edelman. The Company paid an amount determined based upon Edelman's 2007 pretax income (the "Second Tranche Consideration"). The Second Tranche Consideration of $44.4 million, which was paid in a combination of cash and the Company's common stock, has been recorded as goodwill.

In December 2006, Ric Edelman organized a new entity, EFA, to expand the Edelman financial platform into additional markets outside the Washington, D.C. metropolitan area. In exchange for a 10% membership interest in EFA in 2005, the Company initially committed to loan EFA up to $20.0 million to cover its start-up expenses of which $10.0 million was advanced and subsequently repaid. On April 1, 2009, the Company acquired an additional 66% membership interest in EFA for aggregate consideration of $25.5 million in cash and a subordinated promissory note in the principal amount of $10.0 million. Under the terms of the EFA acquisition agreement, the earlier loan agreement was terminated. The fair value of the Company's previously-held noncontrolling interest in EFA on April 1, 2009 was $3.0 million. The consideration exceeded the fair market value of identifiable net tangible assets by

$36.3 million, $24.2 million of which has been recorded as goodwill, $22.3 million of which has been recorded as other intangible assets, $7.2 million of which has been recorded as noncontrolling interest, and $3.0 million of which has been recorded as a gain on step acquisition. All of the goodwill associated with the EFA acquisition is expected to be deductible for tax purposes. On August 24, 2009, EFA was merged with and into another Edelman subsidiary, Edelman Financial Services, LLC ("EFS"). From the acquisition date to the date of the merger with EFS, the Company recorded $3.4 million of revenue and a pretax loss of $841,000 associated with EFA which is included in the accompanying Consolidated Statements of Operations.

The EFA acquisition was accounted for using the acquisition method and, accordingly, the financial information of EFA has been included in the Company's consolidated financial statements from April 1, 2009. The pro forma combined historical results as if the EFA acquisition had been included in operations commencing January 1, 2008 are as follows (unaudited):

	Year Ended December 31,			
	2009		2008	
	(in thousands, except per share amounts)			
Total revenue	$	165,777	$	174,217
Net income (loss) attributable to Sanders Morris Harris Group Inc.		(6,303)		(31,547)
Earnings (loss) per common share:				
Basic	$	(0.22)	$	(1.17)
Diluted	$	(0.22)	$	(1.17)

Dispositions

In January 2009, the Company and SMH entered into a Contribution Agreement with Pan Asia China Commerce Corp. ("PAC3"), Madison Williams, and Madison Williams and Company, LLC ("New BD"), pursuant to which (a) PAC3 agreed to subscribe for and purchase a 40% Class A membership interest in Madison Williams in exchange for a cash payment and note and (b) SMH agreed to contribute to New BD the Capital Markets Business, including a specified amount of working capital (as adjusted for any profits or losses incurred in the Capital Markets Business between January 1, 2009, and the date of closing) less (i) the value of the accounts receivable contributed to Madison Williams, (ii) the value of the certain assets in SMH's New Orleans, Louisiana office, (iii) the value of certain money security deposits and any advance payments, and (iv) the value of certain securities to be mutually agreed upon by the parties in exchange for a 20% Class A membership interest in Madison Williams, cash, and a note issued by Madison Williams to SMH. Current members of management of the Capital Markets Business will retain the remaining 40% membership interest in Madison Williams.

On November 9, 2009, the Company, SMH, PAC3, and Madison Williams entered into an Amended and Restated Contribution Agreement with Fletcher Asset Management, Inc. ("Fletcher"), with respect to the formation of the New BD. Pursuant to the Amended and Restated Contribution Agreement, (a) PAC3's membership interest in Madison Williams was reduced to a 3.1% Class A membership interest and 28.0% Class B membership interest, (b) SMH's interest in Madison Williams was reduced to a 17.5% Class A membership interest, (c) Fletcher agreed to subscribe for and purchase a 40.5% Class A membership interest in Madison Williams in exchange for a cash contribution, and (d) the interest of management of Madison Williams was reduced to a 6.5% Class B membership interest. SMH's membership interest is subject to call for $4.0 million through December 31, 2010. The Class A membership interests have a distribution preference over the Class B membership interests until a total of $8.5 million of distributions to the Class A membership interests have been made, and no distributions may be made to any class of Class B membership interests until the SMH note for $8.0 million has been repaid. This transaction closed on December 9, 2009. The Company recognized a gain of $8.3 million from the sale of the Capital Markets Business which is included in "Loss from discontinued operations, net of income taxes" in the Consolidated Statements of Operations. The Company expects to receive its share of profits if and when distributions are made by Madison Williams.

In March 2010, we entered into an agreement with the principals of Concept pursuant to which we agreed to contribute certain of the assets, properties, and other rights pertaining to Concept, including the prime brokerage, research and capital markets, fund accounting and administration, and research library businesses to CCM and CCAdmin, two new entities formed by the principals of Concept. The Washington Research Group of Concept was sold during the fourth quarter of 2010 prior to the spin-off of Concept. The Company recognized a gain of $1.4 million from the sale of the Washington Research Group which is included in "Loss from discontinued operations, net of income taxes" in the Consolidated Statements of Operations. The operations reclassified to discontinued operations were within the "Prime brokerage services" segment. After the spin-off, the Company retains a 24% capital interest and 43.48% profit and loss interest in CCH and a 43.48% member interest in CCAdmin. The terms of the transaction provide generally that we retain 50% of the cash and cash equivalents and net security positions held by Concept at closing. Current members of management of Concept will retain the remaining interests in the new entities.

The spin-off transaction closed on December 31, 2010, following approval by the Financial Industry Regulatory Authority ("FINRA") of a new member application by CCM and a continuing membership application by the Company. In addition to the capital and profits interests in CCM and CCAdmin, the Company on (a) March 1, 2010, purchased from Concept Capital Holdings, LLC ("CCH"), a wholly-owned subsidiary of Concept Partners, LLC ("CP") at its face value, a note in the principal amount of $1.2 million and (b) on December 31, 2010, purchased from CCH a second note in the principal amount of $500,000, with an additional $4.0 million committed, generally equal to 50% of the sum of cash and cash equivalents and net security positions of Concept on December 31, 2010. The loss on the contribution of Concept's assets was $1.2 million, which is included in "Other general and administrative" on the Consolidated Statements of Operations.

3. ALLOWANCE FOR DOUBTFUL ACCOUNTS

The following table sets forth pertinent information regarding the allowance for doubtful accounts (in thousands):

Balance at January 1, 2008	$ 2,330
Provision for bad debts	1,180
Charge off of receivables	(2,040)
Balance at December 31, 2008	1,470
Provision for bad debts	2,642
Charge off of receivables	(1,568)
Balance at December 31, 2009	2,544
Provision for bad debts	2,164
Charge off of receivables	(2,725)
Balance at December 31, 2010	$ 1,983

The Company has two note receivables on nonaccrual status in the amount of $1.2 million as of December 31, 2010, due to nonpayment on the notes. One note in the amount of $920,000 does not have an allowance as of December 31, 2010. Although management believes the interest is not recoverable, the loan principal appears to be collectible as of December 31, 2010, and as such the note is carried at its net realizable value. The other note receivable on nonaccrual status in the amount of $233,000 as of December 31, 2010, is fully reserved within the allowance for doubtful accounts. Accounts over 90 days past due are monitored at least quarterly by management.

4. SECURITIES OWNED AND SECURITIES SOLD, NOT YET PURCHASED

Securities owned and securities sold, not yet purchased at December 31, 2010 and 2009 were as follows:

	December 31,			
	2010		2009	
	Owned	Sold, Not Yet Purchased	Owned	Sold, Not Yet Purchased
	(in thousands)			
Marketable:				
Corporate stocks and options	$ 13,325	$ 10,242	$ 12,695	$ 8,339
Corporate bonds	494	-	3,861	-
	13,819	10,242	16,556	8,339
Not readily marketable:				
Limited partnerships-consolidated management companies	4,459	-	19,969	-
Limited partnerships-other	19,964	-	-	-
Warrants	1,767	-	2,429	-
Corporate bond	356	-	-	-
Stocks and options	1,326	-	426	-
	27,872	-	22,824	-
	$ 41,691	$ 10,242	$ 39,380	$ 8,339

Securities not readily marketable include investment securities (a) for which there is no market on a securities exchange or no independent publicly quoted market, (b) that cannot be publicly offered or sold unless registration has been effected under the Securities Act of 1933 or other applicable securities acts, or (c) that cannot be offered or sold because of other arrangements, restrictions, or conditions applicable to the securities or to the company. Not readily marketable securities consist of investments in limited partnerships, equities, options, warrants, and a bond. In accordance with FASB ASC Topic 323, *Investments – Equity Method and Joint Ventures* , direct investments in limited partnerships are accounted for using the equity method which approximates fair value. The Company is restricted from exiting their investments in limited partnerships-consolidated management companies ("private investment limited partnerships") prior to dissolution of the partnership; however, limited partners can sell their interest in the private investment limited partnership to qualified investors. The Company does not intend to exit the private investment limited partnerships until dissolution. The Company expects to receive its interests in the private investment limited partnerships over the remaining one to ten year life of the private investment limited partnerships. Unfunded commitments in the private investment limited partnerships were $2.1 million as of December 31, 2010. Proprietary investments in limited partnerships held by the Company's broker-dealer subsidiary are accounted for at fair value. Investments in limited partnerships – other principally consists of an investment in PTC Houston Management, CCM, and Madison Williams.

The consolidated management companies' investments in limited partnerships principally consist of ownership in the following private investment partnerships: Corporate Opportunities Fund, L.P., Corporate Opportunities Fund (Institutional), L.P., Sanders Opportunity Fund, L.P., Sanders Opportunity Fund (Institutional), L.P., Life Sciences Opportunity Fund, L.P., Life Sciences Opportunity Fund (Institutional), L.P., Life Sciences Opportunity Fund II, L.P., Life Sciences Opportunity Fund (Institutional) II, L.P., 2003 Houston Energy Partners, L.P., 2005 Houston Energy Partners, L.P., SMH Private Equity Group I, L.P., SMH Private Equity Group II, L.P., SMH NuPhysicia, LLC, and SMH Zilliant, LLC. The Company expects to liquidate its investment in the limited partnerships over the remaining one to ten year life of the limited partnerships. A summary of the results of operations and partners' capital of the limited partnerships is as follows as of and for the years ended December 31, 2010, 2009, and 2008 (unaudited):

	Year Ended December 31, 2010	2009	2008
		(in thousands)	
Net investment income (loss)	$ 3,621	$ (684)	$ 32,107
Unrealized gain (loss) on investments	14,759	43,036	(46,949)
Realized gain (loss) on investments	9,054	(7,892)	(4,706)
Increase (decrease) in partners' capital resulting from operations	$ 27,434	$ 34,460	$ (19,548)
Total assets	$ 257,850	$ 259,400	$ 286,121
Total liabilities	(38,778)	(5,171)	(115,014)
Partners' capital	$ 219,072	$ 254,229	$ 171,107

FASB ASC 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 hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;

Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

A description of the valuation methodologies used for securities measured at fair value, as well as the general classification of such securities pursuant to the valuation hierarchy, is set forth below.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon industry-standard pricing methodologies, models, or other valuation methodologies that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that securities are recorded at fair value. The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. The Company had one investment in common stock of a corporation with a quoted market price, in which management adjusted the quoted market price value to reflect a short-term lock-up period on the stock. The value based on the market price was $186,000, and recorded with the discount for the lock-up period at $157,000 as of December 31, 2010. The adjustment to fair value of the stock was based on a calculation of the cost of a put option for the term of the lock-up period, using a Black-Scholes model.

Level 1 consists of unrestricted publicly traded equity securities traded on an active market whose values are based on quoted market prices.

Level 2 includes securities that are valued using industry-standard pricing methodologies, models, or other valuation methodologies. Level 2 inputs are other than quoted market prices that are observable for the asset, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted market prices that are observable for the asset, such as interest rates and yield curves observable at commonly quoted intervals, volatilities, credit risks, prepayment speeds, loss severities, and default rates; and inputs that are derived principally from observable market data by correlation or other means. Securities in this category include restricted publicly traded equity securities, publicly traded equity securities traded on an inactive market, publicly traded debt securities, warrants whose underlying stock is publicly traded on an active market, and options that are not publicly traded or whose pricing is uncertain.

Level 3 includes securities whose fair value is estimated based on industry-standard pricing methodologies and internally developed models utilizing significant inputs not based on, nor corroborated by, readily available market information. This category primarily consists of investments in limited partnerships and equity securities that are not publicly traded.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The following table sets forth by level within the fair value hierarchy securities owned and securities sold, not yet purchased as of December 31, 2010:

	Level 1	Level 2	Level 3	Total
		(in thousands)		
Securities owned:				
Corporate stocks and options	$ 12,663	$ 937	$ 142	$ 13,742
Corporate bonds	-	494	356	850
Limited partnerships-consolidated management companies	-	-	4,459	4,459
Limited partnerships-other	-	-	19,686	19,686
Warrants	-	1,756	11	1,767
Total securities owned	$ 12,663	$ 3,187	$ 24,654	$ 40,504
Securities sold, not yet purchased				
Corporate stocks and options	$ 10,073	$ 169	$ -	$ 10,242
Total securities sold, not yet purchased	$ 10,073	$ 169	$ -	$ 10,242

The following table sets forth a summary of changes in the fair value of the Company's level 3 securities owned for the year ended December 31, 2010:

	Limited Partnerships Consolidated Management Companies	Limited Partnerships Other	Warrants	Stocks and Options	Bond	Total
			(in thousands)			
Balance, beginning of year	$ 6,565	$ 6,688	$ 5	$ 426	$ -	$ 13,684
Cumultaive effect of adoption of a new accounting principle	-	4,650	-	-	-	4,650
Contribution of Concept assets	-	1,005	-	-	-	1,005
Realized gains (losses)	-	68	-	(88)	-	(20)
Unrealized gains relating to securities still held at the reporting date	1,725	8,423	6	12	-	10,166
Purchases, issuances, and settlements	(3,831)	(1,148)	-	3	-	(4,976)
Transfers between levels	-	-	-	(211)	356	145
Balance, end of year	$ 4,459	$ 19,686	$ 11	$ 142	$ 356	$ 24,654

Transfers between levels of the fair value hierarchy are recognized on the actual date of the event or circumstances that caused the transfer, which generally coincides with the Company's quarterly valuation process. A level 3 to level 2 transfer occurred during the year in the amount of $211,000 for a company that completed an Initial Public Offering that had a market value available. In addition, one of the marketable securities owned at the beginning of the year converted to a nonmarketable bond during 2010 with a fair value of $356,000 at December 31, 2010.

Net unrealized gains for level 3 securities owned are a component of "Principal transactions" and "Equity in income (loss) of limited partnerships" in the Consolidated Statements of Operations as follows:

	Year Ended December 31, 2010	
	Principal Transactions	Equity in Income (Loss) of Limited Partnerships
	(in thousands)	
Unrealized gains relating to securities still held at the reporting date	$ 163	$ 10,003

At December 31, 2010, the Company had $172,000 and $1.0 million in securities owned that are valued using the equity method and at cost, respectively.

5. RECEIVABLES, NET

Receivables at December 31, 2010 and 2009 were as follows:

	December 31, 2010	December 31, 2009
	(in thousands)	
Notes Receivable:		
Nonaffiliates	$ 4,791	$ 6,127
Employees and executives	2,090	2,670
Other affiliates	9,757	8,556
Receivables from affiliated limited partnerships	73	337
Receivables from other affiliates	6,892	2,946
Receivable from Endowment Advisers	60,978	65,398
Receivables from broker-dealers	403	1,112
Receivables from customers	25,380	22,569
Current tax receivable	4,387	5,901
Allowances for bad debts	(1,983)	(2,544)
Receivables, net	$ 112,768	$ 113,072

Notes receivables from nonaffiliates consist of uncollateralized promissory notes from unrelated companies. The notes bear interest at various rates up to 12% and are payable on demand.

In August 2008, we entered into agreements with Salient Partners and Endowment Advisers to repurchase the Company's interests in such entities for a total of $95.3 million. The terms of the agreements provide that Endowment Advisers will pay the Company annually the greater of $12.0 million in priority to other distributions, or 23.15% of total distributions, until the Company has received a total of $86.0 million plus 6% per annum. The Company received an additional $9.3 million note for its 50% interest in Salient Partners, payable with interest over a five-year period. In May 2009, the principal amount of the Salient note was reduced by $2.25 million to reflect an offset of certain liabilities that the Company agreed to pay under the agreements. In connection with such transactions, the Company recorded receivables in the amount of $76.7 million representing the net present value of the expected receipts using a weighted average imputed interest rate of 11.8%. The Salient uncollateralized note is included in "Notes receivable: Nonaffiliates" in the above table. The Company has a preferential interest in the cash flow distributions of Endowment Advisers, L.P.

Notes receivable from employees and executives primarily consist of noninterest bearing loans provided to certain executives and employees of the Company to induce the employees and executives to affiliate with the Company. Notes receivable issued to employees totaled $75,000 in 2010. The notes typically are forgiven over a one to six year period and have tiered maturities from 2011 through 2016 and are structured to be incentives for the employees to remain at the Company. As each maturity date is reached, a portion of the notes is forgiven if the employee remains employed by the Company. If employment is terminated, the remaining unforgiven balance is due and payable by the former employee. Such forgiveness is recorded as employee compensation and benefits in the Consolidated Statements of Operations.

In addition, CCH issued two uncollateralized notes during 2010 in connection with the Concept transaction. See "Note 2 – *Acquisitions and Dispositions* ". These notes bear interest at the applicable federal rate for instruments with a term of over ten years provided under *Section 1274(d)* of the Internal Revenue Code of 1986 on the closing date of December 31, 2010, and mature on December 31, 2020. A discount on the notes was recorded in the amount of $282,000, based on the difference in market interest rates at the date of issuance and the stated rate of interest on the notes. The discount is recorded within the loss on contribution of Concept's assets, as part of the disposition.

Notes receivable from other affiliates primarily consist of the $8.0 million uncollateralized note issued by Madison Williams to the Company in connection with the Capital Markets transaction. See "Note 2 – *Acquisitions and Dispositions* ". This note bears interest at 6% and matures on December 9, 2019.

6. DEPOSITS WITH CLEARING ORGANIZATIONS

Under its clearing agreements, SMH and GFS BD are required to maintain a certain level of cash or securities on deposit with clearing organizations. Should the clearing organizations suffer a loss due to the failure of a customer of the Company to complete a transaction, the Company is required to indemnify the clearing organizations. The Company had $3.0 million and $2.5 million on deposit as of December 31, 2010 and 2009, respectively, with clearing organizations to meet this requirement for SMH and GFS BD.

7. FURNITURE, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS

Furniture, equipment, and leasehold improvements at December 31, 2010 and 2009 were as follows:

	December 31,	
	2010	2009
	(in thousands)	
Furniture and fixtures	$ 4,092	$ 4,627
Equipment	7,982	9,885
Leasehold improvements	17,119	16,414
Accumulated depreciation and amortization	(17,316)	(16,309)
Furniture, equipment, and leasehold improvements, net	$ 11,877	$ 14,617

8. BORROWINGS

In May 2009, the Company borrowed $25.0 million under a credit agreement with a bank, the proceeds of which were used to complete the EFA acquisition. The maturity date was October 31, 2012 and included interest at the greater of the prime rate or 5%. Principal of $1.8 million plus interest was payable quarterly. The credit agreement was amended and restated on December 31, 2010 to extend the maturity date to December 31, 2014, with the same loan commitment of $25.0 million and the same interest rate of the greater of prime rate or 5%. Principal of $1.5 million plus interest is due quarterly. The additional proceeds of the loan of $11.9 million were used to complete the Global acquisition. The credit agreement is secured by substantially all of the assets of the Company, other than the assets of SMH and GFS BD. The credit agreement contains various covenants customary for transactions of this type including the requirement that the Company maintain minimum financial ratios, net worth, liquid assets, and cash balances, as well as minimum assets under management, and meet monthly, quarterly, and annual reporting requirements. The credit agreement also contains covenants that restrict the ability of the Company, among other things, to incur indebtedness, pay dividends or distributions, make capital expenditures and other restricted payments, including investments, and consummate asset sales. At December 31, 2010, the Company was in compliance with all covenants. The following table shows future maturities related to this credit agreement (in thousands):

2011	$	5,881
2012		5,881
2013		5,881
2014		7,352
Total	$	24,995

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at December 31, 2010 and 2009 were as follows:

	December 31,	
	2010	2009
	(in thousands)	
Accounts payable	$ 7,460	$ 7,661
Compensation	18,766	17,841
Other	17,221	9,855
Total accounts payable and accrued liabilities	$ 43,447	$ 35,357

In conjunction with the sale of the Company's interests in Salient Partners and Endowment Advisers, the Company recorded a payable in 2009 in the amount of $4.1 million representing the net present value of future incentive compensation payments to employees of Salient Partners. The payable for these incentive compensation payments will be satisfied through deductions in payments received in connection with the sale of our interest in Endowment Advisers. This payable is included in "Other" in the above table. The balance of this payable was $1.7 million at December 31, 2010.

10. INCOME TAXES

The components of the income tax provision (benefit) for the years ended December 31, 2010, 2009, and 2008 were as follows:

	Year Ended December 31,		
	2010	2009	2008
		(in thousands)	
From continuing operations:			
Current	$ 84	$ (1,456)	$ (3,246)
Deferred	7,089	(122)	14,945
Income tax provision (benefit) from continuing operations	7,173	(1,578)	11,699
From discontinued operations	(446)	(1,082)	(3,007)
Income tax provision (benefit)	$ 6,727	$ (2,660)	$ 8,692

The difference between the effective tax rate reflected in the income tax provision from continuing operations and the statutory federal rate is analyzed as follows:

	Year Ended December 31,		
	2010	2009	2008
		(in thousands)	
Expected federal tax at statutory rate of 34%	$ 5,973	$ (1,884)	$ (2,931)
Goodwill impairment	-	285	13,175
State income taxes	1,054	(333)	(517)
Other	146	354	1,972
Total	$ 7,173	$ (1,578)	$ 11,699

The effective tax rates from continuing operations for the years ended December 31, 2010, 2009, and 2008 were 40.8%, 28.5% and (135.7%), respectively.

The components of the deferred income tax assets and liabilities were as follows:

	December 31,	
	2010	2009
	(in thousands)	
Deferred income tax assets:		
Interest income	$ 162	$ -
Gain on disposal of assets	264	-
Adjustment for discontinued operations	376	
Capital loss carryforward	42	2,319
Charitable contributions	-	25
Accumulated depreciation	666	-
Accrued liabilities	16	16
Allowance for doubtful accounts	753	965
Deferred compensation	350	350
Restricted stock compensation	661	708
Stock option compensation	326	255
Goodwill and other intangible assets amortization/impairment	6,218	8,545
Total deferred tax assets	9,834	13,183
Deferred income tax liabilities:		
EADV incentive payment	(169)	-
Charitable contributions	(72)	-
Accrued bonus	(330)	-
Nontaxable partnership distributions	(96)	-
Unrealized gain on securities owned	(5,774)	(1,154)
Accumulated depreciation	-	(132)
Unrealized gains on securities available for sale	(101)	(101)
Prepaid expenses	(161)	(134)
Imputed interest expense	(186)	(186)
State franchise tax	(408)	(319)
Section 141R step up	(1,139)	(1,139)
Gain on sale of business	(24,248)	(25,473)
Total deferred tax liabilities	(32,684)	(28,638)
Net deferred tax liability	$ (22,850)	$ (15,455)

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences.

The current tax receivable at December 31, 2010 and 2009 was $4.4 million and $5.9 million, respectively.

11. STOCK-BASED COMPENSATION PLANS

Substantially all employees are eligible to participate in the Sanders Morris Harris Group Inc. 401(k) defined contribution plan. The Company made no contributions to this plan in 2010, 2009, and 2008, however one of the subsidiaries made discretionary contributions during these years.

The Company has two types of stock-based compensation awards: (1) stock options, and (2) restricted common stock.

The Company's 1998 Incentive Plan specifies that the number of shares of its common stock available for incentive awards or incentive stock options may not exceed the greater of 4,000,000 shares or 25% of the total number of shares of common stock outstanding.

Stock Options

The 1998 Incentive Plan provides for the issuance to eligible employees of, among other things, incentive and non-qualified stock options that may expire up to 10 years from the date of grant. The outstanding options vest over one to five year service periods and have an exercise price equal to the closing price of the Company's stock on the date of the grant. Unvested options on the date of termination of employment are forfeited within 90 days of termination. Typically, new shares are issued upon the exercise of stock options.

During the years ended December 31, 2010, 2009, and 2008, 42,807, 42,500, and 246,078 options were exercised for which the Company received proceeds of $233,000, $195,000, and $1.2 million, respectively, and the tax benefit realized from stock option exercises was $6,000, $17,000, and $373,000, respectively. The Company recognized pretax compensation cost of $21,000, or $13,000 net of tax, for the year ended December 31, 2009; and $166,000, or $100,000 net of tax, for the year ended December 31, 2008. No such expense was recognized during 2010. There was no unrecognized stock-based compensation expense related to stock options at December 31, 2010.

The following table sets forth information regarding the Company's stock options for each of the three years in the period ended December 31, 2010:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2008	856,385	$ 8.30		
Granted	50,000	8.17		
Exercised	(246,078)	4.89		$ 1,085
Outstanding at December 31, 2008	660,307	9.56		
Exercised	(42,500)	9.95		49
Cancelled/Forfeited	(16,666)	8.17		
Outstanding at December 31, 2009	601,141	9.95		
Exercised	(42,807)	5.45		17
Settled	(140,000)	4.44		
Cancelled/Forfeited	(58,334)	6.70		
Outstanding at December 31, 2010	360,000	12.40	3.80	-
Options exercisable at December 31, 2010	360,000	12.40	3.80	-

The following table summarizes information related to stock options outstanding and exercisable at December 31, 2010:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 12/31/2010	Wgtd. Avg. Remaining Contr. Life (in years)	Wgtd. Avg. Exercise Price	Number Exercisable at 12/31/2010	Wgtd. Avg. Exercise Price
$4.50-$6.04	55,000	0.99	$ 5.47	55,000	$ 5.47
$7.91-$9.15	25,000	2.12	8.16	25,000	8.16
$12.02-$16-81	280,000	4.51	14.14	280,000	14.14
$4.50-$16.81	360,000	3.80	12.40	360,000	12.40

The fair value of options at date of grant was estimated using the Black-Scholes option pricing model. There were no stock options granted during 2010 and 2009. During 2008, stock options were granted with the following weighted-average assumptions:

	2008
Expected life in years	10.00
Interest rate	3.17%
Volatility	28.33%
Dividend yield	2.20%
Weighted average fair value of options granted during the period	$ 2.47

Restricted Stock

The 1998 Incentive Plan permits the Company to grant restricted common stock to its employees. Additionally, eligible employees and consultants are allowed to purchase, in lieu of salary, commission, or bonus, shares of the Company's restricted common stock at a price equal to 66.66% of the 20-day average of the closing sales price of the Company's common stock, ending on the day prior to the date the shares are issued. All shares are valued at the closing price on the date the shares are issued. The value of restricted shares granted, less consideration paid, if any, is amortized to compensation expense over a one to five year vesting period.

Employees deferred compensation of $40,000, and $151,000 during the years ended December 31, 2009 and 2008, respectively, which was used to purchase restricted common stock. No such compensation was deferred in 2010. The Company recognized pretax compensation expense of $1.9 million, $3.7 million, and $2.7 million, during the years ended December 31, 2010, 2009, and 2008, respectively, related to its restricted common stock plan.

The following table summarizes certain information related to restricted common stock grants at December 31, 2010:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2010	490,076	$8.17
Nonvested at December 31, 2010	291,365	7.53
For the year ended December 31, 2010:		
Granted	162,290	5.56
Vested	340,887	7.53
Forfeited	20,114	7.14

At December 31, 2010, total unrecognized compensation cost, net of estimated forfeitures, related to nonvested restricted stock totaled $1.0 million and is expected to be recognized over the next 4.25 years. The fair value of restricted stock vested during the years ended December 31, 2010, 2009, and 2008 was $1.9 million, $2.4 million, and $1.5 million, respectively.

12. PREFERRED STOCK

The Company is authorized to issue 10,000,000 shares of preferred stock, par value $0.10 per share. Shares of preferred stock may be issued from time to time by the board of directors, without action by the shareholders, in one or more series with such designations, preferences, special rights, qualifications, limitations, and restrictions as may be designated by the board of directors prior to the issuance of such series. No shares of preferred stock have been issued as of December 31, 2010.

13. TREASURY STOCK

On November 6, 2007, the Company's board of directors approved a program to repurchase up to 1,000,000 shares of the Company's common stock. On May 27, 2010, the Company's board of directors approved the repurchase of up to another 1,000,000 shares of the Company's common stock, subject to a maximum expenditure of $2.5 million under the credit agreement. Under the program, shares are repurchased in the open market or privately negotiated transactions from time to time at prevailing market prices. Such repurchases are accounted for using the cost method. The Company repurchased 1,207,193, 6,809, and 119,800 shares of its common stock at an average price of $5.43, $4.16, and $9.70 per share during the years ended December 31, 2010, 2009, and 2008, respectively, related to this program. During 2009, the Company issued 262,180 treasury shares at an aggregate cost of $1.6 million in connection with the acquisition of EFA and 793,714 treasury shares at an aggregate cost of $4.8 million in connection with the sale of stock and warrants to Fletcher International, Ltd.

14. EARNINGS (LOSS) PER COMMON SHARE

Basic and diluted earnings (loss) per common share computations were as follows:

	Year Ended December 31,		
	2010	2009	2008
	(in thousands, except per share amounts)		
Income (loss) from continuing operations	$ 10,393	$ (3,964)	$ (20,319)
Loss from discontinued operations, net of tax	(697)	(1,518)	(4,974)
Net income (loss) attributable to the Company	$ 9,696	$ (5,482)	$ (25,293)
Basic earnings (loss) per common share:			
Continuing operations	$ 0.35	$ (0.14)	$ (0.75)
Discontinued operations	(0.02)	(0.05)	(0.19)
Net earnings (loss)	$ 0.33	$ (0.19)	$ (0.94)
Diluted earnings (loss) per common share:			
Continuing operations	$ 0.35	$ (0.14)	$ (0.75)
Discontinued operations	(0.02)	(0.05)	(0.19)
Net earnings (loss)	$ 0.33	$ (0.19)	$ (0.94)
Weighted average number of common shares outstanding:			
Basic	29,203	28,402	26,972
Incremental common shares issuable under stock option plan, net	167	-	-
Diluted	29,370	28,402	26,972

Outstanding stock options of 340,000, 601,000, and 511,000 at December 31, 2010, 2009, and 2008, respectively, have not been included in diluted earnings (loss) per common share because to do so would have been antidilutive for the years presented. Warrants outstanding at December 31, 2010, were included in the 2010 calculation of diluted earnings (loss) per common share. Warrants outstanding at December 31, 2009 to purchase shares of common stock in an aggregate value of up to $7.5 million at an exercise price of $5.75 per common share have also not been included in diluted earnings (loss) per common share because to do so would have been antidilutive for the year. There were no warrants outstanding at December 31, 2008. Restricted stock issued under the 1998 Incentive Plan is included in both basic and diluted earnings per share since the shares participate in dividend rights.

15. GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amount of the Company's goodwill and other intangible assets for the years ended December 31, 2010 and 2009 were as follows:

	Year Ended December 31, 2010					
			Amortizable Intangible Assets:			Total Other
	Goodwill	Trade Names	Covenants Not To Compete	Customer Relationships	Subtotal	Intangible Assets
	(in thousands)					
Balance, beginning of year	$ 73,455	$ 18,422	$ 3,683	$ 10,093	$ 13,776	$ 32,198
Acquisition of IFS	409	166	22	767	789	955
Acquisition of Global	10,812	8,048	1,979	22,304	24,283	32,331
Acquisition of SSG	37	-	-	-	-	-
Amortization of other intangible assets	-	-	(870)	(910)	(1,780)	(1,780)
Balance, end of year	$ 84,713	$ 26,636	$ 4,814	$ 32,254	$ 37,068	$ 63,704

	Year Ended December 31, 2009					
			Amortizable Intangible Assets:			Total Other
	Goodwill	Trade Names	Covenants Not To Compete	Customer Relationships	Subtotal	Intangible Assets
	(in thousands)					
Balance, beginning of year	$ 63,078	$ 4,526	$ 450	$ 7,589	$ 8,039	$ 12,565
Acquisition of EFA	24,167	15,000	4,000	3,300	7,300	22,300
Leonetti purchase price adjustment	(319)	-	-	-	-	-
Impairment charges	(13,471)	(1,104)	-	-	-	(1,104)
Amortization of other intangible assets	-	-	(767)	(796)	(1,563)	(1,563)
Balance, end of year	$ 73,455	$ 18,422	$ 3,683	$ 10,093	$ 13,776	$ 32,198

All of the Company's goodwill and other intangible assets, net, are related to the Wealth Management business segment.

The goodwill impairment charges recognized in 2009 and 2008 reflect impairment due to market deterioration experienced in 2008 and during the first quarter of 2009. The amount of the impairment loss was determined based on the calculation process specified in FASB ASC Topic 350, *Intangibles – Goodwill and Other* , which compared carrying value to the estimated fair value of assets and liabilities. Factors considered in determining fair value include, among other things, the Company's market capitalization as determined by quoted market prices for its common stock and the value of the Company's reporting units. The Company uses several methods to value its reporting units, including discounted cash flows, comparisons with valuations of public companies in the same industry, and multiples of assets under management.

Other intangible assets consist primarily of customer relationships and trade names acquired in business combinations. Other intangible assets acquired that have indefinite lives (trade names) are not amortized but are tested for impairment annually, or if certain circumstances indicate a possible impairment may exist. Certain other intangible assets acquired (customer relationships and covenants not to compete) are amortized on a straight line basis over their estimated useful lives and tested for impairment if certain circumstances indicate an impairment may exist. Other intangible assets are tested for impairment by comparing expected future cash flows to the carrying amount of the intangible assets. The Company recognized trade name impairments of $1.1 million during the year ended December 31, 2009. As of December 31, 2010, accumulated goodwill and other intangible assets impairments are $69.9 million and $1.3 million, respectively. No impairment charges were recorded in the year ended December 31, 2010.

Goodwill and other intangible assets, net, are classified as level 3 within the fair value hierarchy.

As of December 31, 2010, the remaining weighted-average amortization period is 3.61 years for covenants not to compete and 11.26 years for customer relationships included in the table above.

The following table shows estimated future amortization expense related to these intangible assets (in thousands):

2011	$ 4,258
2012	4,236
2013	4,232
2014	3,632
2015	2,919
Thereafter	17,791

16. COMMITMENTS AND CONTINGENCIES

The Company has issued letters of credit in the amounts of $250,000, $245,000, $230,000, $230,000, and $48,000, and to the owners of five of the offices that we lease to secure payment of our lease obligations for those facilities.

The Company has uncommitted financing arrangements with clearing brokers that finance our customer accounts, certain broker-dealer balances, and firm trading positions. Although these customer accounts and broker-dealer balances are not reflected on the consolidated balance sheet for financial reporting purposes, the Company has generally agreed to indemnify these clearing brokers for losses they may sustain in connection with the accounts, and therefore, retains risk on these accounts. The Company is required to maintain certain cash or securities on deposit with our clearing brokers.

The Company has a commitment to fund an additional $4.0 million for the second note purchased from Concept Capital Holdings, LLC. See "Note 2 – *Acquisitions and Dispositions.* "

Many aspects of our business involve substantial risks of liability. In the normal course of business, we have been and in the future may be named as defendant or co-defendant in lawsuits and arbitration proceedings involving primarily claims for damages. We are also involved in a number of regulatory matters arising out of the conduct of our business. There can be no assurance that these matters will not have a material adverse effect on our results of operations in any future period and a significant judgment could have a material adverse impact on our consolidated financial position, results of operations, and cash flows. In addition to claims for damages and monetary sanctions that may be made against us, we incur substantial costs in investigating and defending claims and regulatory matters.

In July 2008, the Dallas regional office of the Financial Industry Regulatory Authority (FINRA) conducted a routine examination of SMH's broker-dealer activities. SMH received an examination report on December 31, 2008, which identified a number of deficiencies in SMH's operations. In April 2009, SMH resolved half of the deficiencies noted through a compliance conference procedure. On October 5, 2010, SMH received a "Wells letter" notification from FINRA, which stated that the staff of FINRA had made a preliminary determination to recommend that disciplinary action be brought against SMH and two former employees based on alleged violations of certain federal securities laws and FINRA rules based on the deficiencies identified in the 2008 examination. Counsel for SMH and the former employees have reached an agreement in principle with the Dallas regional office of FINRA to resolve the matter. While the agreement must be finalized, we do not believe its impact on SMH and the Company will be material.

The Company is a defendant in certain litigation incidental to its securities and underwriting business. The Company accounts for litigation losses in accordance with FASB Accounting Standards Codification No. 450, "Contingencies." Under ASC No. 450, loss contingency provisions are recorded for probable losses at management's best estimate of a loss, or when a best estimate cannot be made, a minimum loss contingency amount is recorded. These estimates are often initially developed substantially earlier than the ultimate loss is known, and the estimates are refined each accounting period as additional information becomes known. Accordingly, the Company is often initially unable to develop a best estimate of loss, and therefore the minimum amount, which could be zero, is recorded. As information becomes known, either the minimum loss amount is increased, resulting in additional loss provisions, or a best estimate can be made, also resulting in additional loss provisions. Occasionally, a best estimate amount is changed to a lower amount when events result in an expectation of a more favorable outcome than previously expected. A contingent liability of approximately $2.7 million has been recorded at December 31, 2010 for these proceedings and exposures. This contingent liability represents management's best estimate of probable loss, as defined by FASB ASC No. 450, "Contingencies."

Total rental expense for operating leases was $7.1 million, $5.8 million, and $5.3 million for the years ended December 31, 2010, 2009, and 2008, respectively. Certain leases contain provisions for renewal options, escalation clauses based on increases in certain costs incurred by the lessor, as well as free rent periods and tenant improvements. We amortize office lease incentives and rent escalations on a straight line basis over the life of the respective leases. The Company and its subsidiaries have obligations under operating leases that expire by 2020 with initial noncancelable terms in excess of one year. Future minimum commitments under these operating leases are as follows (in thousands):

2011	$	10,694
2012		9,778
2013		8,520
2014		5,118
2015		3,895
Thereafter		8,157
Total minimum rental payments		46,162
Minimum sublease rentals		(15,206)
Net minimum rental payments	$	30,956

17. CONCENTRATIONS OF RISK

Financial investments that potentially subject the Company to concentrations of credit risk primarily consist of securities owned, and all receivables. The Company's securities portfolio has a concentration in companies in the energy and life sciences sectors. Risks and uncertainties associated with financial investments include credit exposure, interest rate volatility, regulatory changes, and changes in market values of equity securities. Future changes in market trends and conditions may occur that could cause actual results to differ materially from the estimates used in preparing the accompanying consolidated financial statements.

The Company executes, as agent, securities transactions on behalf of its customers. If either the customer or a counterparty fails to perform, the Company may be required to discharge the obligations of the nonperforming party. In such circumstances, the Company may sustain a loss if the market value of the security is different from the contract value of the transaction. The Company's customer security transactions are transacted on either a cash or margin basis. In margin transactions, the customer is extended credit by the clearing broker, subject to various regulatory margin requirements, collateralized by cash and securities in the customer's account. In connection with these activities, the Company executes customer transactions with the clearing broker involving the sale of securities not yet purchased (short sales). In the event the customer fails to satisfy its obligation, the Company may be required to purchase financial instruments at prevailing market prices in order to fulfill the customer's obligations.

The Company and its subsidiaries are engaged in various trading and brokerage activities with counterparties that primarily include broker-dealers, banks, and other financial institutions. If counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty.

The Company is subject to credit risk to the extent that its deposits with commercial banks exceed the Federal Deposit Insurance Corporation insurable limit of $250,000. Management does not consider this risk to be significant.

18. NET CAPITAL REQUIREMENTS OF SUBSIDIARY

SMH and GFS BD are subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1 (and the rule of the "applicable" exchange also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1). At December 31, 2010, SMH had net capital, as defined, of $11.1 million, which was $10.3 million in excess of its required net capital of $843,000. At December 31, 2010, SMH had aggregate indebtedness of $12.6 million. SMH's aggregate indebtedness to net capital ratio was 1.14 to 1 at December 31, 2010. GFS BD had net capital, as defined of $727,000, which was $627,000 in excess of its required net capital of $100,000, with an aggregate indebtedness to net capital ratio of 1.99 to 1 at December 31, 2010.

19. BUSINESS SEGMENT INFORMATION

The Company has two operating segments, Wealth Management and Institutional Services, and one non-operating segment, Corporate Support and Other. The business segments are based upon factors such as the services provided and distribution channels served. Certain services are provided to customers through more than one of our business segments.

In December 2009, the Company completed the sale of its Capital Markets Business which consisted of our investment banking, and most of our New York institutional trading, sales, and research businesses (excluding The Juda Group and the Concept Capital division). As a result of this transaction, management realigned its reportable segments to reflect its remaining operations and the Capital Markets segment was renamed the Institutional Services segment. Prior period amounts were reclassified to reflect the new reportable segments.

The Wealth Management segment provides investment advisory, wealth and investment management, and financial planning services to institutional and individual clients. It earns an advisory fee based on such factors as the amount of assets under management and the type of services provided. The Wealth Management segment may also earn commission revenue from the sale of equity, fixed income, mutual fund, and annuity products; and sales credits from the distribution of investment banking issues. In addition, performance fees may be earned for exceeding performance benchmarks for the investment portfolios in the limited partnerships that we manage. The Wealth Management segment also earns revenue from net interest on customers' margin loan and credit account balances and sales credits from the distribution of investment banking products.

The Institutional Services segment generally provides corporate financing services to its institutional client base. These services are provided through two divisions: (i) institutional brokerage and (ii) prime brokerage services.

- The Institutional Brokerage division distributes equity and fixed income products through its distribution network to its institutional clients. Institutional revenue consists of commissions and principal credits earned on transactions in customer brokerage accounts, net interest on customers' margin loan and credit account balances, and sales credits from the distribution of investment banking products.

- The Prime Brokerage Services division provides trade execution, clearing and custody services mainly through Goldman Sachs, and other back-office services to hedge funds and other professional traders. Prime broker revenue consists of commissions and principal credits earned on equity and fixed income transactions, interest income from securities lending services to customers, and net interest on customers' margin loan and credit account balances.

The Corporate Support and Other segment includes realized and unrealized gains and losses on the Company's investment portfolios, and interest and dividends earned on our cash and securities positions. Unallocated corporate revenue and expenses are included in Corporate Support and Other. Gains and losses from sports representation and management services performed by SSG are included in Corporate Support and Other.

The following summarizes certain financial information of each reportable business segment for the years ended December 31, 2010, 2009, and 2008. The Company does not analyze asset information in all business segments.

	Year Ended December 31,		
	2010	2009	2008
		(in thousands)	
Revenue:			
Wealth Management	$ 125,299	$ 100,943	$ 101,950
Institutional Services:			
Institutional brokerage	4,523	4,814	6,574
Prime brokerage services	30,390	49,837	61,658
Institutional Services Total	34,913	54,651	68,232
Corporate Support and Other	8,631	8,646	1,759
Total	$ 168,843	$ 164,240	$ 171,941
Income (loss) from continuing operations before equity in income (loss) of limited partnerships and income taxes:			
Wealth Management	$ 32,804	$ 26,685	$ 35,276
Institutional Services:			
Institutional brokerage	(454)	(638)	(1,823)
Prime brokerage services	(1,950)	2,311	2,851
Institutional Services Total	(2,404)	1,673	1,028
Corporate Support and Other	(19,889)	(30,440)	(76,659)
Total	$ 10,511	$ (2,082)	$ (40,355)
Equity in income (loss) of limited partnerships:			
Wealth Management	$ 2,396	$ (898)	$ 51,901
Institutional Services:			
Institutional brokerage	-	-	-
Prime brokerage services	-	-	-
Institutional Services Total	-	-	-
Corporate Support and Other	10,498	(450)	(13,270)
Total	$ 12,894	$ (1,348)	$ 38,631
Gain on step acquisition:			
Wealth Management	$ -	$ -	$ -
Institutional Services:			
Institutional brokerage	-	-	-
Prime brokerage services	-	-	-
Institutional Services Total	-	-	-
Corporate Support and Other	-	3,000	-
Total	$ -	$ 3,000	$ -
Income (loss) from continuing operations before income taxes:			
Wealth Management	$ 35,200	$ 25,787	$ 87,177
Institutional Services:			
Institutional brokerage	(454)	(638)	(1,823)
Prime brokerage services	(1,950)	2,311	2,851
Institutional Services Total	(2,404)	1,673	1,028
Corporate Support and Other	(9,391)	(27,890)	(89,929)
Total	$ 23,405	$ (430)	$ (1,724)
Net income attributable to the noncontrolling interest:			
Wealth Management	$ (5,839)	$ (5,112)	$ (6,896)
Institutional Services:			
Institutional brokerage	-	-	-
Prime brokerage services	-	-	-
Institutional Services Total	-	-	-
Corporate Support and Other	-	-	-
Total	$ (5,839)	$ (5,112)	$ (6,896)

20. SUPPLEMENTAL CASH FLOW INFORMATION

	Year Ended December 31,		
	2010	2009	2008
	(in thousands)		
Cash payment (refund) for income taxes, net	$ (2,045)	$ (8,774)	$ 2,320
Cash paid for interest	815	1,503	9
Non-cash investing activities:			
Cumulative effect of adoption of a new accounting principle	334	-	-
Acquisitions:			
Receivables	-	-	10
Goodwill	-	1,859	24,136
Accounts payable and accrued liabilities		-	(290)
Noncontrolling interest	-	-	77
Stock paid for acquisition	(2,399)	(1,859)	(23,933)
Dispositions:			
Receivables, net	(1,969)	7,850	-
Securities owned	1,005	1,200	-
Furniture, equipment, and leasehold improvements, net	(1,678)	(2,729)	-
Other assets and prepaid expenses	(779)	(133)	-
Accounts payable and accrued liabilities	2,180	2,440	-
Additional paid-in capital	-	(336)	-
Sale of nonmarketable securities:			
Receivables	-	(1,824)	76,727
Sale of limited partnerships	-	-	(72,583)
Accounts payable and accrued liabilities	-	1,824	(4,144)
Non-cash financing activities:			
Dividends declared not yet paid	122	78	1,267

21. RELATED PARTY TRANSACTIONS

During 2001, the SMH formed PTC – Houston Management, L.P. ("PTC") to secure financing for a new proton beam therapy cancer treatment center to be constructed in Houston. The Company's investment in PTC was recorded at $9.9 million as of December 31, 2010. During 2010, the Company collected fees of $2.4 million and recorded an unrealized gain from the increase in the fair value of its investment in PTC of $5.2 million. The fees and unrealized gain are included in "Equity in income (loss) of limited partnerships" on the Consolidated Statements of Operations.

The Company owns controlling interests in several limited liability companies that act as the general partners in several limited partnerships (the "Partnerships"). The Partnerships pay management fees to the general partners. Certain officers of SMH serve on the boards of directors of entities in which the Partnerships invest. In addition, SMH has served, and may in the future serve, as the placement agent advisor, offering manager, or underwriter for companies in which the Partnerships invest. Management fees paid by the management companies of the private investment partnerships are included in the revenue caption "Investment advisory and related services" on the Consolidated Statements of Operations. The management fees paid were $4.0 million, $6.2 million, and $6.9 million for the years ended 2010, 2009, and 2008. See "Note 4 – *Securities Owned and Securities Sold, Not yet Purchased* ."

See "Note 5 – *Receivables* " for related party note receivables.

22. UNAUDITED QUARTERLY FINANCIAL INFORMATION

	Three Months Ended,			
	March 31, 2010	June 30, 2010	Sept. 30, 2010	Dec. 31, 2010
	(in thousands, except per share amounts)			
Total revenue	$ 43,403	$ 41,020	$ 38,048	$ 46,372
Income from continuing operations, net of tax	$ 3,838	$ 3,015	$ 2,966	$ 6,413
Income (loss) from discontinued operations, net of tax	(792)	(309)	(558)	962
Net income	3,046	2,706	2,408	7,375
Less: Net loss attributable to the noncontrolling interest	(1,211)	(1,158)	(1,262)	(2,208)
Net income attributable to Sanders Morris Harris Group Inc.	$ 1,835	$ 1,548	$ 1,146	$ 5,167
Basic earnings (loss) per common share:				
Continuing operations	$ 0.09	$ 0.06	$ 0.06	$ 0.15
Discontinued operations	(0.03)	(0.01)	(0.02)	0.03
Net earnings	$ 0.06	$ 0.05	$ 0.04	$ 0.18
Diluted earnings (loss) per common share:				
Continuing operations	$ 0.09	$ 0.06	$ 0.06	$ 0.15
Discontinued operations	(0.03)	(0.01)	(0.02)	0.03
Net earnings	$ 0.06	$ 0.05	$ 0.04	$ 0.18
Weighted average common shares oustanding - basic	29,915	29,564	29,153	28,419
Weighted average common shares outstanding - diluted	29,920	29,584	29,155	28,739

UNAUDITED QUARTERLY FINANCIAL INFORMATION (CONTINUED)

	Three Months Ended,			
	March 31, 2009	June 30, 2009	Sept. 30, 2009	Dec. 31, 2009
	(in thousands, except per share amounts)			
Total revenue	$ 35,858	$ 44,887	$ 37,521	$ 45,974
Income (loss) from continuing operations, net of tax	$ (9,434)	$ 5,196	$ 3,943	$ 1,443
Income (loss) from discontinued operations, net of tax	(2,358)	(854)	(1,435)	3,129
Net income (loss)	(11,792)	4,342	2,508	4,572
Less: Net income loss attributable to the noncontrolling interest	(1,052)	(1,204)	(1,409)	(1,447)
Net income (loss) attributable to Sanders Morris Harris Group Inc.	$ (12,844)	$ 3,138	$ 1,099	$ 3,125
Basic earnings (loss) per common share:				
Continuing operations	$ (0.38)	$ 0.14	$ 0.09	$ (0.00)
Discontinued operations	(0.09)	(0.03)	(0.05)	0.11
Net earnings (loss)	$ (0.47)	$ 0.11	$ 0.04	$ 0.11
Diluted earnings (loss) per common share:				
Continuing operations	$ (0.38)	$ 0.14	$ 0.09	$ (0.00)
Discontinued operations	(0.09)	(0.03)	(0.05)	0.11
Net earnings (loss)	$ (0.47)	$ 0.11	$ 0.04	$ 0.11
Weighted average common shares oustanding - basic	27,567	27,733	27,797	28,676
Weighted average common shares outstanding - diluted	27,567	28,338	28,497	28,676

23. DISCONTINUED OPERATIONS

During the first quarter of 2009, SMH closed three retail offices. This decision was made due to the offices' inability to achieve sufficient revenue to offset their costs. The results of operations for these offices have been reclassified as discontinued operations for all periods presented.

During the fourth quarter of 2009, SMH contributed to Madison Williams the Capital Markets Business in exchange for a 17.5% Class A membership interest in Madison Williams, cash, and a note issued by Madison Williams to the Company. The results of operations for the Capital Markets Business have been reclassified as discontinued operations for the years ended December 31, 2009 and 2008.

During the fourth quarter of 2010, the Company sold the assets of the Washington Research Group, a division of Concept. The results of operations for the Washington Research Group have been reclassified as discontinued operations for the years ended December 31, 2010 and 2009.

A summary of selected financial information of discontinued operations is as follows for the years ended December 31, 2010, 2009, and 2008:

	Year Ended December 31,		
	2010	2009	2008
		(in thousands)	
Operating activities:			
Revenue	$ 13,182	$ 36,488	$ 24,389
Expenses	17,420	48,062	32,370
Loss from discontinued operations before noncontrolling interest and income taxes	(4,238)	(11,574)	(7,981)
Noncontrolling interest in net loss of consolidated companies	721	192	-
Loss from discontinued operations before income taxes	(3,517)	(11,382)	(7,981)
Benefit for income taxes	(1,372)	(3,951)	(3,007)
Loss from operations of discontinued operations	(2,145)	(7,431)	(4,974)
Gain on sale, net of income taxes	1,448	5,913	-
Loss from discontinued operations	$ (697)	$ (1,518)	$ (4,974)

Major classes of assets and liabilities of the closed offices and the Washington Research Group accounted for as discontinued operations in the accompanying consolidated balance sheets at December 31, 2010 and 2009 were as follows:

	December 31,	
	2010	2009
	(in thousands)	
Receivables	-	224
Other assets	-	113
Furniture, equipment, and leasehold improvements, net	114	213
Total assets of discontinued operations	$ 114	$ 550
Accounts payable and accrued liabilities	$ 43	$ 1,454
Total liabilities of discontinued operations	$ 43	$ 1,454

24. SUBSEQUENT EVENTS

On March 7, 2011, the Company's board of directors declared a cash dividend for the first quarter of 2011 in the amount of $0.050 per share of common stock. The cash dividend will be payable on April 18, 2011, to holders of record as of the close of business on April 4, 2011.

On February 11, 2011, a $4.0 million call option from the sale of Madison Williams was exercised in the amount of $1.2 million for 30% of the Company's 17.5% ownership in Madison Williams. The remaining call in the amount of $2.8 million was extended in February 2011.

On May 24, 2007, the Company acquired a 75% interest in Rikoon for cash consideration of $6.0 million of which $1.3 million was recorded as compensation expense. The Company purchased an additional 5% interest in January 2011 for cash consideration of $3.0 million.

On March 15, 2011, the Company announced that the Company is changing its name to "The Edelman Financial Group ", and Ric Edelman, current Company President, will become Co-CEO of the Company.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

The Company had no disagreements on accounting or financial disclosure matters with its independent accountants to report under this Item 9.

Item 9A. Controls and Procedures

Our management, including our Chief Executive Officer and Chief Financial Officer, have conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Exchange Act), as of December 31, 2010, the end of the fiscal period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective in ensuring that the information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934.

The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and board of directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Management (with the participation of our Chief Executive Officer and Chief Financial Officer) conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in *Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission* (COSO). This evaluation included review of the documentation of controls, evaluation of the design effectiveness of controls and concluding on this evaluation. The Global Financial Services, LLC and GFS Advisors, LLC, acquired on December 31, 2010, have been excluded from our 2010 assessment due to the relatively short implementation period. Global Financial Services, LLC and GFS Advisors, LLC whose financial statements reflected combined total assets and total revenues of 0.8 and 0.0 percent, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2010.

Based on our assessment, we concluded that, as of December 31, 2010, the Company's internal control over financial reporting is effective based on those criteria.

Grant Thornton, LLP, the independent registered public accounting firm that audited the consolidated financial statements of the Company included in this annual report on Form 10-K, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2010. The report, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2010, is included in this Item under the heading "Report of Independent Registered Public Accounting Firm."

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934) that occurred during our most recently completed fiscal quarter, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Sanders Morris Harris Group Inc.

We have audited Sanders Morris Harris Group Inc.'s (a Texas Corporation) internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Sanders Morris Harris Group Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting ("Management's Report") . Our responsibility is to express an opinion on Sanders Morris Harris Group Inc.'s internal control over financial reporting based on our audit. Our audit of, and opinion on Sanders Morris Harris Group Inc.'s internal control over financial reporting does not include internal control over financial reporting of Global Financial Services, LLC or GFS Advisors, LLC, whose financial statements reflected combined total asset and total revenues of 0.8 and 0.0 percent, respectively of the related consolidated financial statement amounts as of and for the year ended December 31, 2010. As indicated in Management's Report, Global Financial Services, LLC and GFS Advisors, LLC were acquired on December 31, 2010 and therefore, management's assertion on the effectiveness of Sanders Morris Harris Group Inc.'s., internal control over financial reporting excluded internal control over financial reporting of Global Financial Services, LLC and GFS Advisors, LLC.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Sanders Morris Harris Group Inc. has maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control – Integrated Framework* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Sanders Morris Harris Group Inc. and subsidiaries as of December 31, 2010 and 2009 and the related consolidated statements of operations, changes in equity, and cash flows for each of the two years in the period ended December 31, 2010 and our report dated March 16, 2011 expressed an unqualified opinion.

/s/ GRANT THORNTON LLP

Houston, Texas
March 16, 2011

Item 9B. Other Information

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required in response to this Item 10 is incorporated herein by reference to the Company's definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year covered by this report.

We have adopted a Business Ethics Policy or code of ethics for our employees, which applies to our principal executive officer, principal financial officer, and principal accounting officer, pursuant to section 406 of the Sarbanes-Oxley Act. A copy of our Business Ethics Policy is publicly available on our internet website at www.smhgroup.com. The information contained on our internet website is not incorporated by reference into this Report on Form 10-K.

Item 11. Executive Compensation

The information required in response to this Item 11 is incorporated herein by reference to the Company's definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year covered by this report.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required in response to this Item 12 is incorporated herein by reference to the Company's definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year covered by this report.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information, if any, required in response to this Item 13 is incorporated herein by reference to the Company's definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year covered by this report.

Item 14. Principal Accountant Fees and Services

The information required in response to this Item 14 is incorporated herein by reference to the Company’s definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year covered by this report.

PART IV

Item 15. Exhibits, Financial Statement Schedules

1. Financial Statements

The following financial statements of the Company and Reports of Independent Registered Public Accounting Firm are included under Part II Item 8 of this Form 10-K.

2. Financial Statement Schedules

All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions, are inapplicable, or the required information is included elsewhere in the consolidated financial statements.

3. Exhibits

The exhibits filed in response to Item 601 of Regulation S-K are listed in the Index to Exhibits contained elsewhere herein.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 16, 2011.

SANDERS MORRIS HARRIS GROUP INC.

By: /s/ GEORGE L. BALL
George L. Ball
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities indicated on the 16th day of March 2011.

Signature	Title
/s/ GEORGE L. BALL **George L. Ball**	Chief Executive Officer and Chairman of the Board (Principal Executive Officer)
/s/ RIC EDELMAN **Ric Edelman**	President and Director
/s/ BEN T. MORRIS **Ben T. Morris**	Vice Chairman
/s/ DON A. SANDERS **Don A. Sanders**	Vice Chairman
/s/ RICHARD E. BEAN **Richard E. Bean**	Director
/s/ CHARLES W. DUNCAN, III **Charles W. Duncan, III**	Director
/s/ SCOTT MCCLELLAND **Scott McClelland**	Director
/s/ ALBERT W. NIEMI, JR., PH.D. **Albert W. Niemi, Jr., Ph.D.**	Director
/s/ W. BLAIR WALTRIP **W. Blair Waltrip**	Director
/s/ RICK BERRY **Rick Berry**	Chief Financial Officer (Principal Financial and Accounting Officer)

INDEX TO EXHIBITS

Exhibit Number	Description
3.1	Articles of Incorporation of the Company, as amended (Filed as Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001 (File No. 000-30066), and incorporated herein by reference).
3.2	Amended and Restated Bylaws of the Company (Filed as Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007 (File No. 000-30066), and incorporated herein by reference).
†10.01	Sanders Morris Harris Group Inc. 1998 Incentive Plan as amended (Filed as Appendix A to the Definitive Proxy Statement on Schedule 14A of the Company dated May 3, 2002 (File No. 000-30066), and incorporated herein by reference).
†10.02	Sanders Morris Harris Group Inc. Capital Incentive Program (Filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001 (File No. 000-30066), and incorporated herein by reference).
†10.03	Form of Option Agreement pursuant to 1998 Incentive Plan (Filed as Exhibit 10.03 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005 (File No. 000-30066), and incorporated herein by reference).
†10.04	Form of Restricted Stock Agreement pursuant to 1998 Incentive Plan (Filed as Exhibit 10.04 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005 (File No. 000-30066), and incorporated herein by reference).
†10.05	Employment Agreement dated as of May 10, 2005, between The Edelman Financial Center, LLC and Fredric M. Edelman. (Filed as Exhibit 10.05 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 (File No. 000-30066), and incorporated herein by reference).
†10.06	Sanders Morris Harris Group Inc. 2009 Management Incentive Program. (Filed as Exhibit 10.06 to the Company's Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 000-30066), and incorporated herein by reference).
†10.07	Sanders Morris Harris Group Inc. 2009 Supplemental Bonus Plan. (Filed as Exhibit 10.06 to the Company's Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 000-30066), and incorporated herein by reference).
†10.08	Sanders Morris Harris Group Inc. 2010 Executive Incentive Plan (Filed as Exhibit 10.19 to the Company's Current Report on Form 8-K dated May 27, 2010 (File No. 000-30066), and incorporated herein by reference).
†10.09	Sanders Morris Harris Group Inc. 2010 Executive and Key Manager Restricted Stock Unit Sub-Plan (Filed as Exhibit 10.20 to the Company's Current Report on Form 8-K dated May 27, 2010 (File No. 000-30066), and incorporated herein by reference).
10.10	Office Lease Agreement and related amendments dated September 25, 1996, between Texas Tower Limited and Sanders Morris Mundy Inc. (Filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000 (File No. 000-30066), and incorporated herein by reference).
10.11	Eleventh Amendment to Lease Agreement dated as of December 21, 2006, between Texas Tower Limited and Sanders Morris Harris Inc. (Filed as Exhibit 10.06 to the Company's Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 000-30066), and incorporated herein by reference).
10.12	Reorganization and Purchase Agreement dated as of May 10, 2005, among Sanders Morris Harris Group Inc., The Edelman Financial Center, Inc., The Edelman Financial Center, LLC, and Fredric M. Edelman (Filed as Exhibit 2.1 to the Company's Current Report on Form 8-K dated May 10, 2005 (File No. 000-30066), and incorporated herein by reference).

10.13 Contribution Agreement dated as of April 28, 2003, by and between Salient Partners, L.P., a Texas limited partnership, Salient Advisors, L.P., a Texas limited partnership, Salient Capital, L.P., a Texas limited partnership, Salient Partners GP, LLC, a Texas limited liability company, John A. Blaisdell, Andrew B. Linbeck, J. Matthew Newtown, Jeremy L. Radcliffe, A. Haag Sherman, and Adam L. Thomas, and Sanders Morris Harris Group, Inc. (Filed as Exhibit 10.10 to the Company's Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 000-30066), and incorporated herein by reference).

10.14 Agreement to Retire Partnership Interest and Second Amendment to the Limited Partnership Agreement of Endowment Advisers, L.P. dated as of August 29, 2008, among Sanders Morris Harris Group Inc. and Endowment Advisers, L.P., The Endowment Fund GP, L.P., and The Endowment Fund Management, LLC, and their respective partners and members (Filed as Exhibit 99.2 to the Company's Current Report on Form 8-K dated August 29, 2008 (File No. 000-30066), and incorporated herein by reference).

10.15 Letter agreement dated as of January 1, 2009, among Sanders Morris Harris Group, Inc., Fredric M. Edelman, and Edward Moore (Filed as Exhibit 99.2 to the Company's Current Report on Form 8-K dated January 29, 2009 (File No. 000-30066), and incorporated herein by reference).

10.16 Amended and Restated Credit Agreement dated as of December 31, 2010, between Sanders Morris Harris Group Inc. and Prosperity Bank. (Filed as Exhibit 10.08 to the Company's Current Report on Form 8-K dated January 4, 2011. (File No. 000-30066), and incorporated herein by reference).

10.17 Purchase Agreement dated as of November 26, 2010, among Sanders Morris Harris Group Inc., Robert C.A. Benjamin, Gerardo A. Chapa and Ricardo Persuquia (Filed as Exhibit 2.1 to the Company's Current Report on Form 8-K dated November 29, 2010 (File No. 000-30066), and incorporated herein by reference.

*21.1 Subsidiaries of Sanders Morris Harris Inc.

*23.1 Consent of KPMG LLP.

*23.2 Consent of Grant Thornton, LLP.

*31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.

*31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.

*32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

*32.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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* Filed herewith.

† Management contract or compensation plan or arrangement

Exhibit 21.1

SUBSIDIARIES OF SANDERS MORRIS HARRIS GROUP INC.

Subsidiary	State of Organization	Percentage Ownership	Names Under Which Subsidiary Does Business
Sanders Morris Harris Inc.	Texas	100%	Sanders Morris Harris SMH Asset & Wealth Management SMH Partners Kissinger Financial Services Concept Capital
SMH Capital Advisors, Inc.	Texas	100%	Cummer/Moyers Capital Advisors
The Edelman Financial Center, LLC	Delaware	76%	
Edelman Business Services, LLC	Delaware	100% (1)	
Edelman Financial Services, LLC	Delaware	100% (1)	
Leonetti & Associates, LLC	Illinois	51%	
The Rikoon Group, LLC	Delaware	75%	
The Dickenson Group, LLC	Ohio	50.1%	
Miller-Green Financial Services, Inc.	Texas	100%	
HWG Insurance Agency, Inc.	Texas	100%	
SMM Corporate Management, LLC	Delaware	99% (2)	
SOF Management, LLC	Delaware	100% (2)	
SMH Life Science Management, LLC	Delaware	99% (2)	
Signet Healthcare Partners, LLC	Delaware	50% (2)	
SMH PEG Management, LLC	Delaware	62.53% (2)	
SMH PEG Management II, LLC	Delaware	51.36% (2)	
SMH PE Management, LLC	Delaware	98% (2)	
Select Sports Group Holdings, LLC	Texas	50.5%	
Select Sports Group, Ltd.	Texas	50.5%	
10 Sports Marketing GP, LLC	Delaware	50%	
10 Sports Marketing, LP	Delaware	64.95%	
PTC GP Management, LLC	Texas	50% (2)	
PTC – Houston Management, LP	Texas	42% (2)	
Corporate Opportunities Fund, L.P.	Delaware	0.339% (3) (*)	
Corporate Opportunities Fund (Institutional), L.P.	Delaware	0.0629% (3) (*)	
Life Sciences Opportunity Fund, L.P.	Delaware	16.4811% (4) (*)	
Life Sciences Opportunity Fund (Institutional), L.P.	Delaware	0.9901% (4) (*)	
Life Sciences Opportunities Fund II, L.P.	Delaware	0.5% (5) (*)	
Life Sciences Opportunities Fund II (Institutional), L.P.	Delaware	0.5% (5) (*)	
Investor Financial Solutions, LLC	California	51%	
Global Financial Services, LLC	Texas	48.2%	
GFS Advisors, LLC	Texas	50.1%	

(1) By The Edelman Financial Center, LLC
(2) By Sanders Morris Harris Inc.
(3) By SMM Corporate Management, L9LC
(4) By SMH Life Science Management, LLC
(5) By Signet Healthcare Partners, LLC
(*) Does not include any investment by the Company as a limited partner.

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Sanders Morris Harris Group Inc.

We consent to the incorporation by reference in the registration statements (Nos. 333-72325, 333-37326, and 333-99859) on Form S-8 and (Nos. 333-122973, 333-126672, 333-134448, 333-140506, and 333-155455) on Form S-3 of Sanders Morris Harris Group Inc. of our reports dated March 16, 2009, except as to note 1, which is as of December 10, 2009, and note 23, which is as of March 16, 2010, with respect to the consolidated statements of operations, changes in equity, and cash flows for the year ended December 31, 2008, which report appears in this annual report on Form 10-K of Sanders Morris Harris Group Inc.

/s/ KPMG LLP

Houston, Texas
March 16, 2011

Exhibit 23.2

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Sanders Morris Harris Group Inc.

We have issued our reports dated March 16, 2011, with respect to the consolidated financial statements and internal control over financial reporting included in the Annual Report on Form 10-K for the year ended December 31, 2010 of Sanders Morris Harris Group Inc. We hereby consent to the incorporation by reference of said reports in the Registration Statements of Sanders Morris Harris Group Inc. on Form S-8 (Nos. 333-72325, 333-37326, and 333-99859) and on Form S-3 (Nos. 333-122973, 333-126672, 333-134448, 333-140506, and 333-155455).

/s/ GRANT THORNTON LLP

Houston, Texas
March 16, 2011

Exhibit 31.1

CERTIFICATION

I, George L. Ball, certify that:

1. I have reviewed this annual report on Form 10-K of Sanders Morris Harris Group Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2011

/s/ GEORGE L. BALL

George L. Ball, Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Rick Berry, certify that:

1. I have reviewed this annual report on Form 10-K of Sanders Morris Harris Group Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2011

/s/ RICK BERRY

Rick Berry, Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Sanders Morris Harris Group Inc. (the "Company") on Form 10-K for the year ended December 31, 2010 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, George L. Ball, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ GEORGE L. BALL

George L. Ball
Chief Executive Officer

March 16, 2011

A signed original of this written statement required by Section 906 has been provided to Sanders Morris Harris Group Inc. and will be retained by Sanders Morris Harris Group Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Sanders Morris Harris Group Inc. (the "Company") on Form 10-K for the year ended December 31, 2010 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, Rick Berry, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ RICK BERRY
Rick Berry
Chief Financial Officer

March 16, 2011

A signed original of this written statement required by Section 906 has been provided to Sanders Morris Harris Group Inc. and will be retained by Sanders Morris Harris Group Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Board of Directors

George L. Ball
Chairman & Chief Executive Officer
Sanders Morris Harris Group

Richard E. Bean
Executive Vice President
Pearce Industries Inc.

Charles W. Duncan III
President
Duncan Equities

Ric Edelman
President
Sanders Morris Harris Group
Chairman & Chief Executive Officer
Edelman Financial Services

Scott McClelland
President
Central Market &
Houston Divisions
H.E.B. Grocery Company

Ben T. Morris
Vice Chairman
Sanders Morris Harris Group

Albert W. Niemi Jr.
Dean and Tolleson Chair in
Business Leadership
Cox School of Business
Southern Methodist University

Don A. Sanders
Vice Chairman
Sanders Morris Harris Group

W. Blair Waltrip
Private Investor

Management

George L. Ball
Chairman & Chief Executive Officer

Rick Berry
Chief Financial Officer

Ric Edelman
President

Bruce R. McMaken
Executive Vice President

Edward P. Moore
Executive Vice President,
Wealth Management

Ben T. Morris
Vice Chairman

Don A. Sanders
Vice Chairman

John T. Unger
Senior Vice President &
General Counsel

Corporate Informat

Headquarters
JPMorgan Chase Tower
600 Travis, Suite 5800
Houston, TX 77002

Annual Meeting
The Annual Shareholders Meeting will be held on Thursday, May 26, 2011 at 11:00 a.m. CDT at Sanders Morris Harris headquarters.

Investor Relations
Please visit our website at www.smhgroup.com or contact:
713.224.3100

Independent Registered Public Accounting Firm
Grant Thornton LLP
Houston, TX

Transfer Agent and Registrar
For inquiries concerning shareholder records or certificates, please contact:
Computershare Investor Services
P.O. Box 43078
Providence, RI 02940-3078
Telephone: 312.588.4990
Fax: 312.601.4332
Email:
web.queries@computershare.com

Forward-Looking Statements
This annual report contains forward-looking statements that involve risks and uncertainties, including those relating to future success and growth. Please refer to “Special Cautionary Notice Regarding Forward-Looking Statements” section in the Sanders Morris Harris Form 10-K for the year ended December 31, 2010 for a description of certain factors that may cause actual results to differ from goals. Sanders Morris Harris assumes no obligation to update forward-looking information contained in this annual report.

SANDERS MORRIS HARRIS
600 Travis, Suite 5800, Houston, TX 77002
telephone 713.224.3100
www.smhgroup.com