

INVESTMENT THESIS

LONG: Thomas Weisel Partners Group (TWPG, \$5.04)

Company	Thomas Weisel Partners Group	FY1 PE (Consensus)	N/A	YTD % Change	6.1%
Ticker	TPWG	FY2 PE (Consensus)	N/A	52 Week High	9.33
Stock Price	\$5.04	Price/Book	1.1x	52 Week Low	2.35
Mkt Cap	160	Price/Tangible Book	1.2x	200-Day	4.63
Enterprise Value	93	ROE	N/A	50-Day	4.59
Net Debt	-67	Dividend Yield	N/A	RSI	51.68
Beta	1.41	Debt/Cap	13.1%	Avg. Daily Vol. (000s)	103.3
Cash/Share	\$2.75				

Investment Thesis Overview:

It's hard to believe that it was only 11-months ago when the TED Spread, LIBOR-OIS spread and the "VIX" all made multi-year highs. Each of those barometers of anxiety and fear in the financial system now rest at lows for the past 12-18 months. There are other measures that confidence in the financial markets has been restored: investment grade bond spreads have narrowed, IPO filings are increasing, corporate bond issuance has increased sequentially month-to-month from May onward, and M&A volumes are perking up. There is no reason to believe that we are headed back to the days of "merger Mondays", SIVs, and CDO's². However, it does seem likely that the traditional type of capital markets activity that our parents grew up on (IPOs, secondaries, bond issuance etc.) is on the road to recovery. Simply stated, we're getting back to the basics in the US capital markets.

The financial services landscape has been dramatically altered by the events of the past 12-months. As is often the case during tumultuous periods, the survivors will be longer term winners. We think we are in the first inning of recovery in bond issuance, equity offerings and M&A activity. We have scoured the investment landscape in order to identify a company who will benefit from an upswing in capital markets activity, but whose stock does not yet fully reflect a recovery. Thomas Weisel Partners Group is an established, diversified, well capitalized investment bank. We think TWPG shares could trade considerably higher based on the following:

1. **Even if the economy does not improve meaningfully in the next 12-months, capital markets activity will.** We maintain the view that the economic recovery will be a slow-grind due to the massive carnage in the labor markets and the ongoing deleveraging of the US consumer. However, it is becoming increasingly clear that corporations are selectively looking to take advantage of depressed valuations caused by the economic environment through strategic M&A. Corporate leverage levels remain low (ex-financials) and most companies have taken the opportunity over the past 12-months to reduce overhead and build balance sheet strength. As a result, we expect 2010 M&A activity to increase 30-40% over 2009 levels. Additionally, there is a sizeable backlog of companies waiting to tap the equity markets through an IPO. It looks more and more like the IPO window, which has been shut for 12-18 months has started to re-open. Finally, venture capital activity in the second

quarter increased for the first time in over a year. These three business lines: M&A, equity offerings/IPO's, and venture capital deals are TWPG's "bread and butter" business.

2. **TWPG has taken advantage of the downturn to right-size headcount and selectively enhance its human capital. The franchise remains remarkably strong and well respected.** Thom Weisel, the founder, Chairman and CEO of TWPG is a true Wall Street lion and Silicon Valley legend. Mr. Weisel founded Montgomery Securities, a leading, Silicon Valley based boutique investment bank that was eventually sold to Bank of America. Under his leadership, TWPG has established itself as a leading investment banking franchise to middle-market growth companies. Although the company has reduced headcount during the downturn in order to right-size its cost structure, TWPG has also added experienced talent to better position itself for a recovery. TWPG's stock has been overly penalized, in our opinion, for acquiring Westwind Partners at the peak – a fair criticism. It does not change the strategic importance of the deal to TWPG's long term growth prospects, which now include opportunities in the broader natural resources space. TWPG has one of the broadest and most well-respected human capital platforms among companies that target emerging growth companies.
3. **TWPG shares do not reflect the earnings power of the company in an economic recovery, which we think is \$1.00+.** We expect TWPG to generate a loss per share of \$1.35 in 2009 and achieve break-even in 2010 on a GAAP basis. Excluding amortization associated with the Westwind Partners acquisition, we anticipate TWPG could generate EPS of \$0.10-\$0.15 in 2010. More importantly, we think the stock does not yet reflect the full earnings power of TWPG in an economic recover, which we think could be well north of \$1.00. The company is well capitalized and has relatively little balance sheet risk. It is not a subject often talked about in the context of financials, but we expect TWPG to generate robust FCF in an economic recovery. It should be noted that over the course of the first four years in the last economic expansion, TWPG generated \$97 million in FCF which is a healthy amount when compared to the company's current enterprise value of \$84 million.
4. **TWPG has one of the strongest platforms that targets middle-market growth companies among its peers, yet the stock trades at the lowest valuation.** TWPG targets the consumer, energy, healthcare, media, metals and mining, technology, and telecom sectors – a fairly diverse platform. The stock trades at 1.2x tangible book value, well below its peer group even though TWPG has greater leverage to an upturn than most of its competitors. We think the stock can trade as high as 1.5-2.0x tangible book value as investors gain confidence in a capital markets recovery, which would imply a stock price of \$6.00-\$8.00.

RISKS:

The risks to our investment thesis are the following:

The recovery in the capital markets is hardly firmly entrenched. TWPG has traditionally targeted emerging growth companies, which typically benefit the most in the later stages of an economic cycle. TWPG will not likely return to profitability if the economic recovery stalls or the removal of central bank

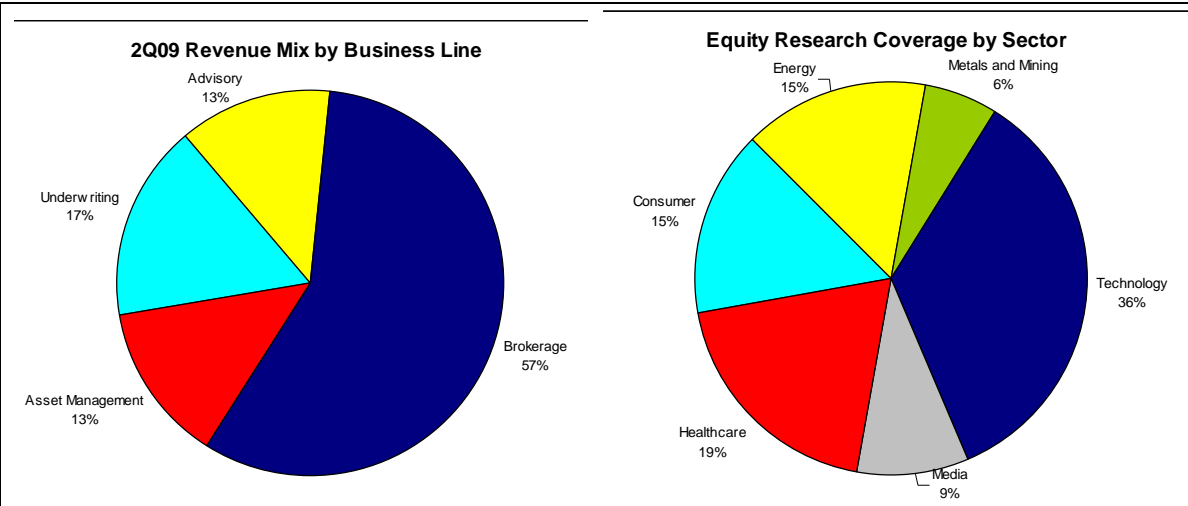
liquidity supports for the capital markets causes further upheaval in the credit markets.

1. **TWPG's earnings are highly sensitive to its investments in private equity and venture capital partnerships.** Revenues from the company's asset management division are dictated in part by the change in the fair value of the assets of several private equity and venture capital vehicles. Over the past 2-years, revenues from TWPG's asset management division have been particularly volatile. It seems likely that the company's private equity and venture capital partnerships are poised to witness gains based on the recent move in equity markets, but we cannot rule out that further reductions in the fair value of holdings could negatively impact revenues and earnings in coming quarters.

COMPANY DESCRIPTION AND A LOOK AT THE TRADING HISTORY

A Quick Look at Thomas Weisel Partners Group

TWPG was founded in 1998; one year after Thom Weisel the company's Chairman and CEO sold Montgomery Securities to Bank of America (then NationsBanc). The company is one of the leading boutique investment banks targeting emerging growth companies. If the company's equity research coverage platform were to be used as a proxy for the firm's target client base, more than 65% of companies under coverage have a market cap of less than \$1.5 billion. TWPG has three major operating divisions: the investment bank (traditional equity underwriting and M&A advisory), brokerage (institutional sales and trading), and asset management. At this stage the company does not have a fixed income platform. Historically the company has targeted the consumer, healthcare, media and technology sectors. These have been areas where the company has been able to leverage Mr. Weisel (and the other partners) extensive contacts and relationships in Silicon Valley. In the first quarter of 2008, TWPG expanded its investment banking platform into the natural resources sector through the acquisition of Westwind Partners for \$156 million. Westwind Partners was a full-service, Canadian based investment bank focused in the energy and mining sectors.



Source: Company reports.

Trading Background:

TWPG shares peaked in the fourth quarter of 2006 at more than \$20/share. The stock bottomed in March of 2009 at \$2.35. The stock is thinly traded and is not widely followed by other sell-side firms. Thom Weisel and Lionel Conacher, COO own 13% of the outstanding shares. Insiders overall own close to 20% of the shares outstanding.



Short Dynamics

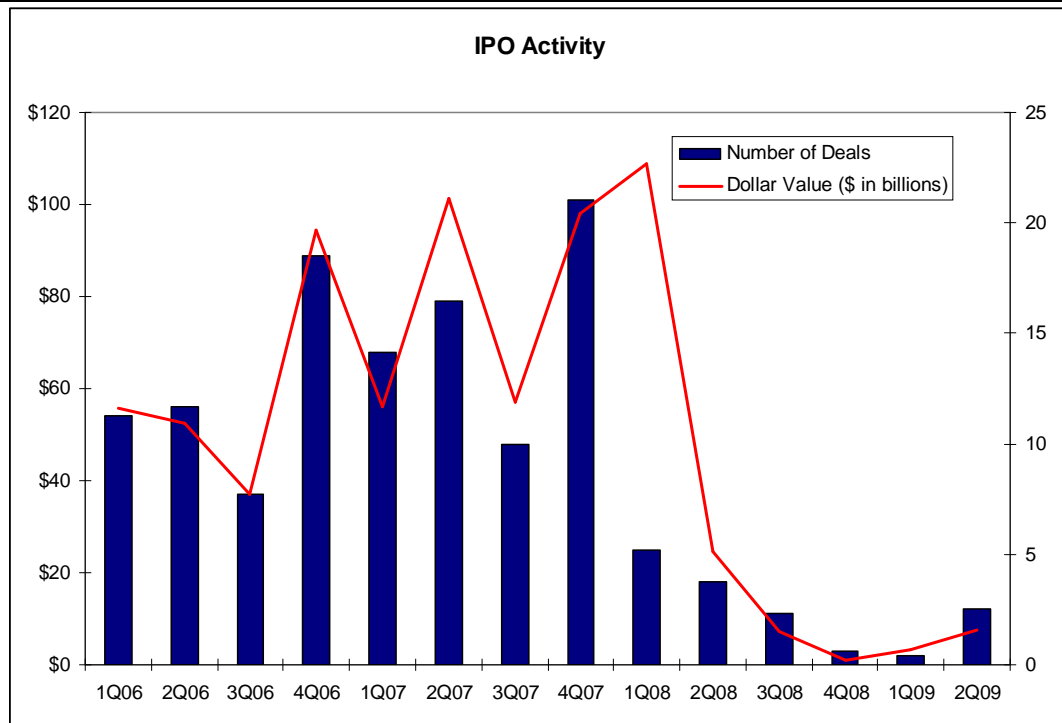
The short interest in TWPG peaked in September 2008 at approximately 1.9 million shares (17 days to cover). Today the short interest is a more modest 600,000 shares, or only 6 days to cover. We do not think the short interest will play a material role in the trading dynamics of the stock.

INVESTMENT THESIS IN DETAIL

Our investment thesis is predicated on the following:

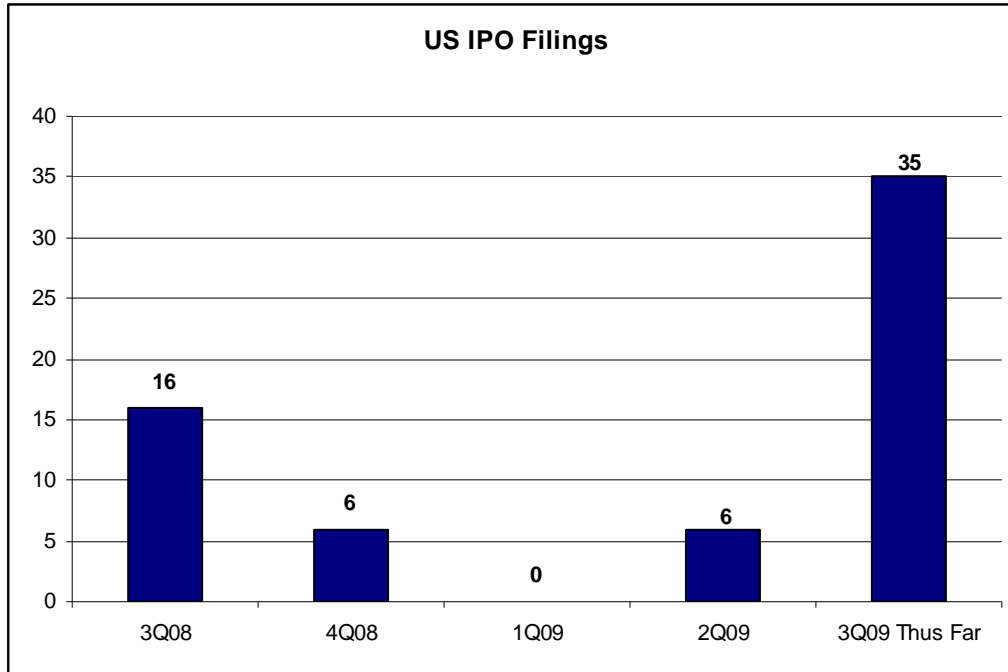
1. **Even if the economy does not improve meaningfully in the next 12-months, capital markets activity will.** Those that have followed PAA Research over the past few months know that we are somewhat cautious about the magnitude of any economic recovery given the ongoing weakness in the labor markets and continued deleveraging US consumer. However, we think that there are ample signs that capital markets activity is in the early stages of a recovery. Improved liquidity will eventually spur improved economic growth, but this recovery will be unlike that of the prior two recessions, in our view. Even though we do not expect robust growth, we are confident that US corporations will increasingly pursue strategic acquisitions. Corporate balance sheets (ex-financials) are relatively strong and have been improved through substantial cost reduction efforts and strong free cash flow generation over the past 12-months. According to ThomsonReuters, global M&A volume in the three-month period from June to August increased 29% sequentially over the prior 3-month period. Second quarter M&A activity increased 15% from the first quarter. Well capitalized companies are increasingly looking to acquire strategic assets that can improve the acquiror's growth profile. We view Disney's proposed acquisition of Marvel, Adobe's pending acquisition of Omniture, and Kraft's offer for Cadbury as prime examples of this growing trend. We think TWPG services clients in the industries that have the strongest growth profile and should lead to a disproportionately large opportunity for advisory work going forward.

Historically, IPO activity has been the strongest in the latter stages of an economic cycle. We expect this to remain true. However, over the past two years the IPO market has been effectively closed, As the chart below demonstrates, US IPO activity collapsed in 2008 and 2009.



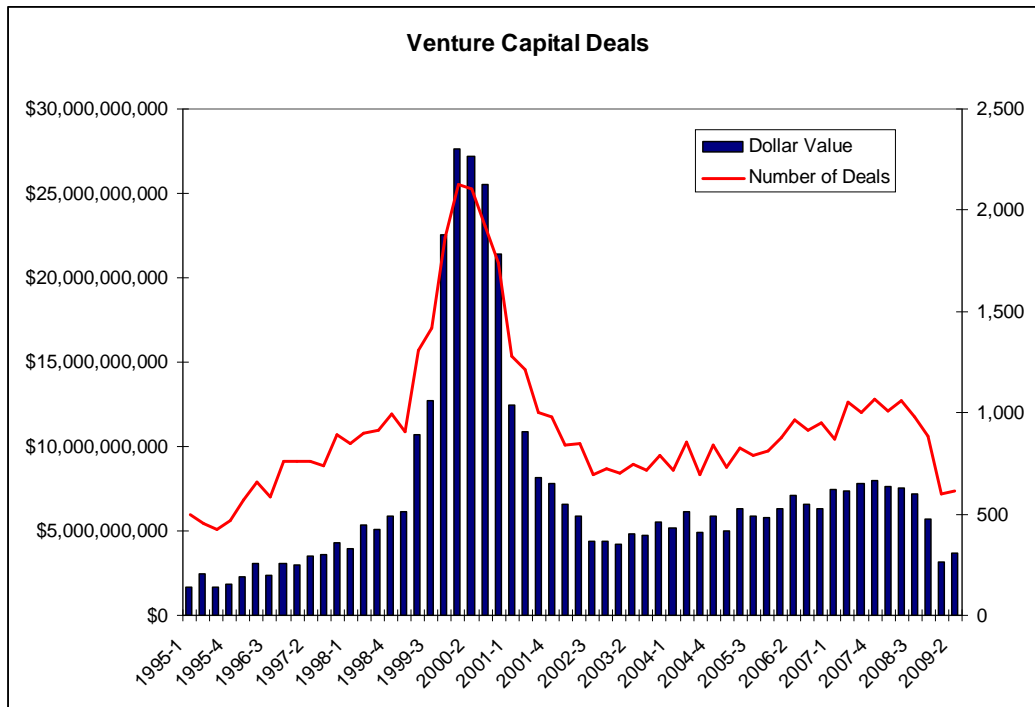
Source: Ernst and Young

We think the IPO freeze has resulted in a large backlog of privately held growth companies that have been waiting to tap the equity capital markets. The S&P 500 is still well below its highs, but it appears that an increasing number of companies are confident that investor appetite for IPO's has improved following this market rally. According to Dun and Bradstreet, 35 companies in the US have filed for an IPO thus far this quarter, up from 6 in the second quarter, and zero in the first quarter. This is a far cry from the levels witnessed in 2006 and 2007, but it is a start. Historically, strong investor response to IPO's has led to a subsequent increase in issuance. These next 4-8 weeks will be critical in establishing a revival in the IPO market.



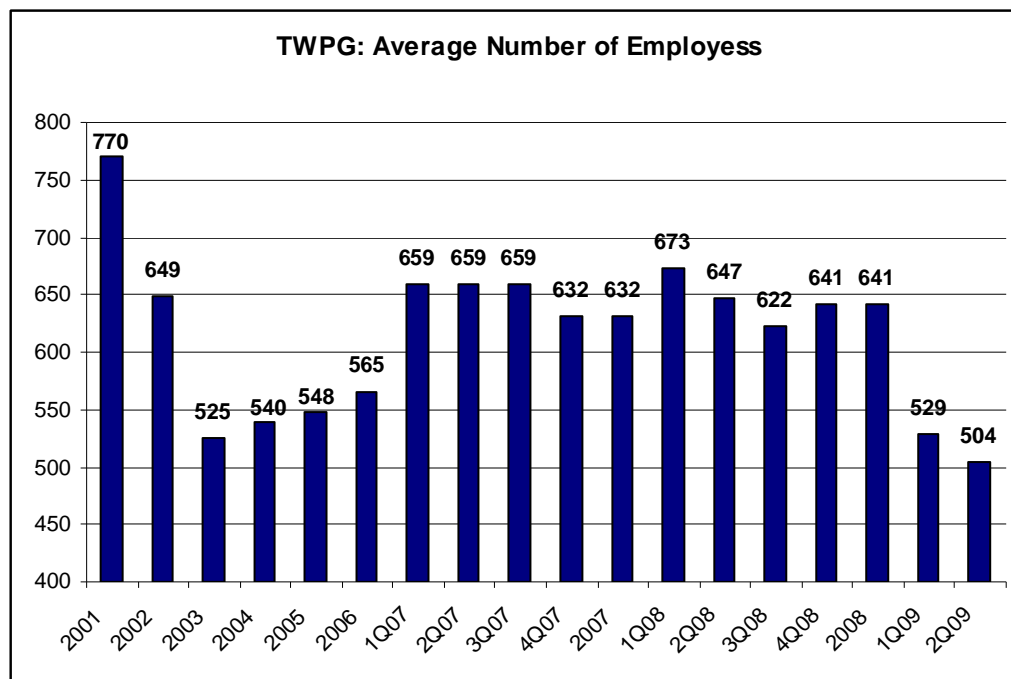
Source: Dun and Bradstreet

TWPG has long established ties with leading venture capital firms. The company is one of the leaders in venture backed IPO's. We view venture capital activity as a "pipeline" of sorts for TWPG. Similar to the stock indices, venture capital activity in the first quarter of 2009 fell to levels not seen since the mid-1990's. There are a number of growing signs that venture capital firms are poised to put more money back to work. According to PWC, the number of venture capital deals increased 1.5% from 1Q09 to 2Q09, while the funding amount increased 15.1% over the same time amount. As the chart below demonstrates, overall funding was still down 54% from the peak (for the most recent cycle) in the fourth quarter of 2007. We are encouraged by the sequential growth and expect the number of venture deals to continue to increase as we get into the back half of this year.



Source: PWC

- TWPG has taken advantage of the downturn to right-size headcount and selectively enhance its human capital. The franchise remains remarkably strong and well respected.** Just as the company did in the previous economic downturn, TWPG management has drastically reduced headcount. Average headcount is down more than 25% from the peak in the first quarter of 2008.



Source: Company reports

We are confident that TWPG management has preserved key human capital even though the company has taken drastic steps to reduce its cost structure in light of the depressed revenue opportunity. Based on our conversations with some of the company's traditional client base, the franchise remains as strong as ever. Additionally, TWPG has taken advantage of this downturn to hire talented individuals in new and established verticals. We think the company will be positioned to generate cycle-to-cycle earnings growth as a result of the recent repositioning of its human capital base.

- 3. TWPG shares do not reflect the earnings power of the company in an economic recovery, which we think is \$1.00+.** We expect TWPG to generate a loss per share of \$1.35 in 2009 and achieve break-even in 2010 on a GAAP basis. Excluding amortization associated with the Westwind Partners acquisition, we anticipate TWPG could generate EPS of \$0.10-\$0.15 in 2010. More importantly, we think the stock does not yet reflect the full earnings power of TWPG in an economic recovery, which we think could be well north of \$1.00. The company is well capitalized and has relatively little balance sheet risk. It is not a subject often talked about in the context of financials, but we expect TWPG to generate robust FCF in an economic recovery. It should be noted that over the course of the first four years in the last economic expansion, TWPG generated \$97 million in FCF which is a healthy amount when compared to the company's current enterprise value of \$84 million.
- 4. TWPG has one of the strongest platforms to target growth companies among its peers, yet the stock trades at the lowest valuation.** TWPG competes with a number of boutique investment banks and larger financial services firms. Among publicly traded companies, we think: JEF, KBW, BPSG, PJC, JMP, RODM, LTS, and COWN are the most appropriate comparables. In the table below we compare TWPG to its key publicly traded competitors along several criteria: revenue/employee, comp ratio, number of research analysts, sectors covered, companies covered and revenue mix. Our objective is to determine which companies could have the greatest leverage to an upturn in capital markets activity. Even though equity research has been decoupled from investment banking for compensation purposes, we still view research coverage as a good proxy for the breadth of a franchise. The companies are remarkably similar in terms of comp ratio, which is simply employee compensation expense as a percentage of revenue.

Revenue/employee is a critical metric for any services firm. It should be noted that both Jefferies (JEF) and Broadpoint, Gleacher (BPSG) have the highest revenue/employee in the sector and as a result trade at higher multiples than the peer group. TWPG generates the lowest revenue/employee in its peer group, which we think is a function of the client base the company serves relative to its peers. The companies generating the strongest revenue/employee have strong exposure to financial companies, which have

generated a great deal of underwriting fees in the past 6-12 months or bankruptcy/restructuring work. We think TWPG's low revenue/employee actually is the simplest indicator to look at in order to evaluate the company's leverage to an upturn. We know the company has an excellent franchise and well respected human capital, in a broader recovery in the capital markets, the revenues will come.

Company	Ticker	Revenue per Employee	1H09 Comp Ratio	# of Analysts	Sectors Covered	Companies Covered	1H09 Rev. Mix
Jefferies	JEF	782,250	61.0%	150	Alternative Energy Consumer Energy Financial Services Healthcare Industrials Services Technology Software Telecommunications Fixed Income	1,200	Investment Banking 14.7% Principal Transactions 40.6% Sales & Trading 19.0% Asset Management 0.0% Other 25.6%
Keefe, Bruyette and Woods	KBW	516,162	60.0%	32	Financial Services European Financial Services	429	Investment Banking 39.0% Principal Transactions 15.6% Sales & Trading 40.5% Asset Management 0.0% Other 4.8%
Broadpoint Gleacher	BPSG	1,004,585	62.0%	20	Aerospace & Defense Alternative Energy Energy Media Technology Fixed Income	270	
Piper Jaffray	PJC	345,450	60.0%	38	Alternative Energy Consumer Financial Services HealthCare Services Technology	596	Underwriting 27.7% Advisory 13.1% Sales & Trading 57.4% Asset Management 2.9% Other -1.1%
JMP Group	JMP	578,174	60.7%	23	Alternative Energy Consumer Financial Services HealthCare Media Real Estate Services	250	Investment Banking 23.5% Principal Transactions 15.0% Sales & Trading 28.6% Asset Management 19.9% Other 13.0%
Rodman and Renshaw Capital	RODM	336,223	61.0%	7	Biotech Industrials - Asia Alternative Energy Energy Metals and Mining Financials	118	Advisory 4.2% Underwriting 65.2% Principal Transactions 9.4% Sales & Trading 3.8% Asset Management 0.0% Other 17.4%
Ladenburg Thalmann Financial Services	LTS		63.3%		Consumer Financial Services Healthcare		Advisory 8.4% Underwriting 0.0% Principal Transactions 0.3% Sales & Trading 82.2% Asset Management 1.3% Other 7.8%
Cowen	COWN	429,293	63.0%	29	Aerospace & Defense Alternative Energy Asia Consumer Healthcare Media Technology Telecom	349	Investment Banking 18.3% Principal Transactions 0.0% Sales & Trading 75.5% Asset Management 0.0% Other 6.2%
Thomas Weisel Partners Group	TWPG	307,293	66.5%	34	Consumer Energy Healthcare Media Metals and Mining Technology Telecom	496	Advisory 9.4% Underwriting 18.3% Principal Transactions 0.0% Sales & Trading 62.6% Asset Management 10.0% Other 9.1%

TWPG has a diversified platform, but its revenues are depressed due to the nature of its client base. We would argue that TWPG has the greatest earnings leverage to a broader based capital markets recovery, yet its shares trade at a sharp discount. It appears the market has yet to discount any recovery in the

IPO or M&A markets, otherwise we would expect TWPG shares to trade at a multiple consistent with its peer group, or perhaps at a premium. Instead, TWPG trades at a meager 1.2x tangible book value compared closer to 2.0x for its peer group.

Company	Ticker	Stock Price	Shares	Market Cap	FY1 EPS	FY2 EPS	FY1 PE	FY 2 PE	5-yr Avg. ROE	Book Value Per Share	Price/Book	Tangible Price/Book
Jefferies	JEF	\$25.12	172.55	4,334	\$0.96	\$1.24	26.2x	20.3x	1.4%	\$12.30	2.0x	2.5x
Keefe, Bruyette and Woods	KBW	\$32.82	34.84	1,143	\$0.81	\$1.35	40.5x	24.3x	N/A	\$11.39	2.9x	2.9x
Broadpoint Gleacher	BPSG	\$8.93	117.87	1,053	\$0.25	\$0.34	35.7x	26.3x	-26.8%	\$0.83	10.7x	15.8x
Piper Jaffray	PJC	\$49.20	19.67	968	\$1.09	\$1.93	45.1x	25.5x	N/A	\$38.02	1.3x	1.7x
JMP Group	JMP	\$10.43	20.75	216	\$0.43	\$0.51	24.3x	20.5x	N/A	\$5.07	2.1x	2.1x
Rodman and Renshaw Capital	RODM	\$4.98	35.38	176	\$0.01	\$0.20	498.0x	24.9x	-12.4%	\$1.10	4.5x	4.8x
Ladenburg Thalmann Financial Services	LTS	\$0.77	167.57	128	-\$0.11	-\$0.02	N/A	N/A	-47.2%	\$0.31	2.5x	N/A
Cowen	COWN	\$6.92	15.12	105	-\$1.59	\$0.30	N/A	23.1x	-48.1%	\$9.40	0.7x	0.8x
Thomas Weisel Partners Group	TWPG	\$5.04	31.71	160	-\$1.50	-\$0.17	N/A	N/A	-48.6%	\$4.66	1.1x	1.2x
							AVERAGE	111.6x	23.5x		3.3x	4.3x
							HARMONIC MEAN	38.4x	23.3x		1.9x	2.0x

CATALYSTS

It appears we are at a critical juncture for the economy and the capital markets. We are cautiously optimistic that we are in the early stages of what we will call the second stage of capital markets recovery. The first stage has been facilitated by unprecedented measures by central banks around the world. Removal of these backstops could nip any recovery in traditional capital markets activity in the bud. Outside of the earnings for TWPG here are a few of the catalysts we see for the company over the next several months:

- 1. IPO Activity.** Historically, the post-labor day period has been the most active in terms of IPO activity. This year will not be any different, but we think the IPO market will receive particular attention given the lack of issuance in the first 8-9 months of the year. To the extent the market is generally receptive to IPO's, we think TWPG will be on track to achieve our FY10 estimates.
- 2. More M&A Activity.** The M&A drumbeat has picked up momentum. It appears there is another deal announcement on a day-to-day basis. We do not expect the market to return to 2007 levels, but we think a modest recovery will cause investors to focus on companies exposed to M&A activity whose shares have yet to appreciate – TWPG.
- 3. TWPG 3Q09 Earnings.** Thom Weisel has been integrally involved in the US capital markets for almost 40-years now. When it comes to activity for small, emerging growth companies, he has great insight. On TWPG's most recent conference call, management indicated there were growing signs of activity, but it was still a little bit too soon to call for a full recovery. We think management could take a more aggressive tact in its outlook in conjunction with its 3Q09 conference call, which would likely spark a rally in shares.

A Look at Our Estimates vs. Consensus

As we mentioned earlier, TWPG is not widely followed, so characterizing street estimates as “consensus” is a bit generous. TWPG’s revenues and earnings are particularly lumpy given the company’s exposure to transaction activity and fair value marks in its private equity and venture capital portfolios. Overall we expect the company’s revenues to slowly recover (excluding private equity and venture capital gains). We think the company is positioned to achieve break-even EPS on a GAAP basis next year. Here are some of our key assumptions:

- A full year decline in TWPG’s investment banking revenue for 2009 of approximately 8%. We forecast that investment banking revenue will increase 40-50% in 2010.
- Stabilization of brokerage revenues in 2010 and an increase of 12.5% in 2010
- \$25-\$30 million of asset management revenues in 2010
- A comp ratio of 59% in the second half of 2009 and 54.5% for all of 2010.
- **Intangible asset amortization related to the Westwind acquisition of \$10 million in 2010. The vast majority of this rolls off in 2011, which will be a \$0.20-\$0.30 boost to GAAP earnings in 2011**

PAA Research Estimates for TWPG vs. Consensus

	Consensus			PAA Research		
	3Q09E	FY09E	FY10E	3Q09E	FY09E	FY10E
Revenues	\$48.3	\$201.7	\$268.4	\$49.8	\$196.1	\$251.6
% Change	-1.6%	6.4%	33.1%	1.4%	3.4%	28.4%
EPS	-\$0.33	-\$1.50	-\$0.17	-\$0.18	-\$1.35	-\$0.01

Source: Yahoo finance, PAA Research

PROBABILITY WEIGHTED RETURN

Looking at the return on investment based not only on current valuation, but the probability weighted return given our conviction level

Upside Conviction Level: 80%

We think TWPG shares could trade as high as \$6.50 in a measured capital markets recovery, \$8.00 in a stronger bounce:

Our base case scenario assumes a steady improvement in traditional capital markets activity, similar to what was witnessed in 2003. To put this in perspective, TWPG generated \$82 million in investment banking revenues in 2003, which obviously did not include the company’s current platform in the natural resources space. We currently forecast \$87 million in investment banking revenues for 2010. Under our base case scenario, TWPG shares would trade at roughly 1.5x book value to get to \$6.50. To the extent the recovery in capital markets gains more momentum, we think TWPG shares could trade as high as 2.0x book value, or \$8.00/share.

Total Probability Weighted Return: In order to better allocate capital from a timing and sizing perspective, we think it is important to look at each position on a probability weighted return basis. In the case of a pair trade we want to evaluate the relative upside and downside in each stock. We think there's an 80% chance TWPG shares will trade higher in the next 9-12 months. Overall our probability weighted return is a compelling 34.7%. We see downside to \$4.00/share for TWPG if the recovery in the capital markets stalls.

TWPG - LONG							Total Probability Weighted Return
Return Matrix	Current Price	Target Price	Conviction Level	Absolute Return	Holding Period	Annualized Return	
Upside	\$5.01	\$8.00	50.0%	59.7%	1.0x	59.7%	34.7%
Base	\$5.01	\$6.50	30.0%	29.7%	1.0x	29.7%	
Downside	\$5.01	\$4.00	20.0%	-20.2%	1.0x	-20.2%	

Source: PAA Research LLC