

JMP Group Inc.
Form 10-Q
November 04, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2010

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number: 001-33448

JMP Group Inc.

(Exact name of registrant as specified in its charter)

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Delaware
(State or Other Jurisdiction of

20-1450327
(I.R.S. Employer

Incorporation or Organization)

Identification No.)

600 Montgomery Street, Suite 1100, San Francisco, California 94111

(Address of principal executive offices)

Registrant's telephone number: (415) 835-8900

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

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

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

Large accelerated filer Accelerated filer

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

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

The number of shares of the Registrant's common stock, par value \$0.001 per share, outstanding as of October 31, 2010 was 21,733,222.

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AVAILABLE INFORMATION

JMP Group Inc. is required to file current, annual and quarterly reports, proxy statements and other information required by the Securities Exchange Act of 1934, as amended, with the Securities and Exchange Commission. You may read and copy any document JMP Group Inc. files with the SEC at the SEC's Public Reference Room located at 100 F Street, N.E., Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an internet website at <http://www.sec.gov>, from which interested persons can electronically access JMP Group Inc.'s SEC filings.

JMP Group Inc. will make available free of charge through its internet site <http://www.jmpg.com>, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, Forms 3, 4 and 5 filed by or on behalf of directors, executive officers and certain large stockholders, and any amendments to those documents filed or furnished pursuant to the Exchange Act. These filings will become available as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC.

JMP Group Inc. also makes available, in the Investor Relations section of its website and will provide print copies to stockholders upon request, (i) its corporate governance guidelines, (ii) its code of business conduct and ethics, and (iii) the charters of the audit, compensation, and corporate governance and nominating committees of its board of directors. These documents, as well as the information on the website of JMP Group Inc., are not intended to be part of this quarterly report.

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. Financial Statements****JMP Group Inc.****Consolidated Statements of Financial Condition****(Unaudited)****(Dollars in thousands, except per share data)**

	September 30, 2010	December 31, 2009
Assets		
Cash and cash equivalents	\$ 57,616	\$ 75,680
Restricted cash and deposits (includes cash on deposit with clearing broker of \$255 at September 30, 2010 and December 31, 2009)	45,710	36,628
Receivable from clearing broker	2,072	1,609
Investment banking fees receivable, net of allowance for doubtful accounts of \$0 at September 30, 2010 and December 31, 2009	3,965	2,706
Marketable securities owned, at fair value	15,005	5,899
Incentive fee receivable	732	2,631
Other investments (of which \$49,402 and \$57,190 at fair value at September 30, 2010 and December 31, 2009, respectively)	53,310	59,190
Loans held for investment, net of allowance for loan losses	1,473	1,592
Loans collateralizing asset-backed securities issued, net of allowance for loan losses	373,217	327,967
Interest receivable	1,100	1,046
Fixed assets, net	1,574	1,345
Deferred tax assets	37,727	51,499
Other assets	9,802	6,929
Total assets	\$ 603,303	\$ 574,721
Liabilities and Equity		
Liabilities:		
Marketable securities sold, but not yet purchased, at fair value	\$ 9,746	\$ 1,047
Accrued compensation	21,782	43,026
Asset-backed securities issued	344,167	326,632
Interest payable	605	525
Note payable	26,643	9,045
Deferred tax liability	39,547	48,220
Other liabilities	28,289	20,575
Total liabilities	470,779	449,070
Commitments and Contingencies		
JMP Group Inc. Stockholders' Equity		
Common stock, \$0.001 par value, 100,000,000 shares authorized; 22,069,741 shares issued at September 30, 2010 and December 31, 2009; 21,733,222 and 21,533,583 shares outstanding at September 30, 2010 and December 31, 2009, respectively	22	22

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Additional paid-in capital	123,691	126,125
Treasury stock, at cost, 336,519 and 536,158 shares at September 30, 2010 and December 31, 2009, respectively	(2,238)	(4,360)
Accumulated other comprehensive loss	(104)	
Retained earnings (accumulated deficit)	753	(1,152)
Total JMP Group Inc. stockholders' equity	122,124	120,635
Noncontrolling Interest	10,400	5,016
Total equity	132,524	125,651
Total liabilities and equity	\$ 603,303	\$ 574,721

See accompanying notes to consolidated financial statements.

Table of Contents**JMP Group Inc.****Consolidated Statements of Financial Condition - (Continued)****(Unaudited)****(Dollars in thousands, except per share data)**

Assets and liabilities of consolidated VIE included in total assets and total liabilities above:

	September 30, 2010	December 31, 2009
Restricted cash	\$ 35,073	\$ 34,689
Loans collateralizing asset-backed securities issued, net of allowance for loan losses	373,217	327,967
Interest receivable	1,079	1,013
Deferred tax assets	21,768	38,729
Other assets	69	46
Total assets of consolidated VIE	\$ 431,206	\$ 402,444
Asset-backed securities issued	\$ 344,167	\$ 326,632
Interest payable	592	522
Deferred tax liability	37,029	45,602
Other liabilities	363	87
Total liabilities of consolidated VIE	\$ 382,151	\$ 372,843

See accompanying notes to consolidated financial statements.

Table of Contents**JMP Group Inc.****Consolidated Statements of Operations****(Unaudited)****(In thousands, except per share data)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenues				
Investment banking	\$ 12,332	\$ 10,391	\$ 28,436	\$ 25,104
Brokerage	5,895	7,939	21,255	25,836
Asset management fees	3,283	3,266	9,316	15,766
Principal transactions	1,055	5,981	2,887	15,403
Gain on sale and payoff of loans	6,990	6,727	26,231	11,571
Gain on repurchase of asset-backed securities issued		4,096		4,205
Gain on bargain purchase				1,179
Net dividend income	357	766	1,472	1,850
Other income	292	227	1,095	1,154
Non-interest revenues	30,204	39,393	90,692	102,068
Interest income	11,525	12,214	36,106	24,172
Interest expense	(8,539)	(8,504)	(25,089)	(17,484)
Net interest income	2,986	3,710	11,017	6,688
Provision for loan losses	(509)	(1,384)	(964)	(5,366)
Total net revenues after provision for loan losses	32,681	41,719	100,745	103,390
Non-interest Expenses				
Compensation and benefits	19,361	29,308	65,474	70,849
Administration	1,328	1,098	4,324	3,541
Brokerage, clearing and exchange fees	1,177	1,317	3,752	4,057
Travel and business development	711	534	2,632	1,587
Communications and technology	990	989	3,136	2,807
Occupancy	672	610	1,994	1,788
Professional fees	818	899	2,606	2,783
Depreciation	158	189	495	592
Impairment loss on purchased management contract	2,750		2,750	
Other	137	215	479	378
Total non-interest expenses	28,102	35,159	87,642	88,382
Income before income tax expense	4,579	6,560	13,103	15,008
Income tax expense	1,943	2,879	5,464	6,491
Net income	2,636	3,681	7,639	8,517
Less: Net income attributable to noncontrolling interest	1,205	712	2,305	1,228

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Net income attributable to JMP Group Inc.	\$ 1,431	\$ 2,969	\$ 5,334	\$ 7,289
Net income attributable to JMP Group Inc. per common share:				
Basic	\$ 0.07	\$ 0.14	\$ 0.25	\$ 0.35
Diluted	\$ 0.06	\$ 0.13	\$ 0.24	\$ 0.34
Dividends declared per common share	\$ 0.015	\$ 0.01	\$ 0.04	\$ 0.03
Weighted average common shares outstanding:				
Basic	21,583	20,755	21,616	20,633
Diluted	22,114	22,015	22,243	21,640

See accompanying notes to consolidated financial statements.

Table of Contents**JMP Group Inc.****Consolidated Statement of Changes in Equity****(Unaudited)****(In thousands)**

	JMP Group Inc. Stockholders' Equity								
	Common Stock		Treasury Stock	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Comprehensive Income	Total Equity
	Shares	Amount							
Balance, December 31, 2009	22,070	\$ 22	\$ (4,360)	\$ 126,125	\$ (1,152)	\$	\$ 5,016	\$	\$ 125,651
Net income					5,334		2,305	7,639	7,639
Additional paid-in capital - stock-based compensation				(3,211)					(3,211)
Additional paid-in capital - excess tax benefit related to stock-based compensation				(294)					(294)
Cash dividends paid to shareholders					(873)				(873)
Purchases of shares of common stock for treasury			(8,336)						(8,336)
Reissuance of shares of common stock from treasury			7,926	934	(1)				8,859
Sale of subsidiary shares to noncontrolling interest holders							6,093		6,093
Purchase of subsidiary shares from noncontrolling interest holders			2,532	137	(2,373)		(2,738)		(2,442)
Unrealized loss on cash flow hedge, net of tax						(104)		(104)	(104)
Dividends paid to noncontrolling interest holders					(182)		(276)		(458)
Balance, September 30, 2010	22,070	\$ 22	\$ (2,238)	\$ 123,691	\$ 753	\$ (104)	\$ 10,400	\$ 7,535	\$ 132,524

See accompanying notes to consolidated financial statements.

Table of Contents**JMP Group Inc.****Consolidated Statements of Cash Flows****(Unaudited)****(In thousands)**

	Nine Months Ended September 30,	
	2010	2009
Cash flows from operating activities:		
Net income	\$ 7,639	\$ 8,517
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Provision for doubtful accounts	24	
Provision for loan losses	964	5,366
Accretion of deferred loan fees	(1,128)	(494)
Amortization of liquidity discount, net	2,033	405
Gain on sale and payoff of loans	(26,231)	(11,571)
Gain on repurchase of asset-backed securities issued		(4,205)
Change in other investments:		
Fair value	(2,001)	(8,143)
Incentive fees reinvested in general partnership interests	(535)	(4,767)
Realized gain on other investments	(99)	
Impairment loss on purchased management contract	2,750	
Depreciation and amortization of fixed assets	495	592
Stock-based compensation expense	3,049	3,901
Deferred income taxes	5,099	6,713
Gain on bargain purchase		(1,179)
Net change in operating assets and liabilities:		
Increase in interest receivable	(54)	(216)
(Increase) decrease in receivables	177	(3,675)
Increase in marketable securities	(9,106)	(3,695)
Increase in restricted cash (excluding restricted cash reserved for lending activities), deposits and other assets	(6,442)	(366)
Decrease in marketable securities sold, but not yet purchased	8,699	4,074
Increase (decrease) in interest payable	80	(616)
(Decrease) increase in securities sold under agreements to repurchase		
(Decrease) increase in accrued compensation and other liabilities	(10,931)	18,994
Increase in Redeemable Class A member interests		
Net cash (used in) provided by operating activities	(25,518)	9,635
Cash flows from investing activities:		
Purchases of fixed assets	(724)	(473)
Purchase of management contract	(3,750)	
Investment in subsidiary		(2,089)
Purchases of other investments	(20,249)	(7,486)
Sales of other investments	24,568	12,254
Funding of loans collateralizing asset-backed securities issued	(224,125)	(96,894)
Funding of loans held for investment	(511)	
Sale and payoff of loans collateralizing asset-backed securities issued	165,149	46,092
Principal payments on loans collateralizing asset-backed securities issued	59,428	35,500

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Principal payments on loans held for investment	300	270
Net change in restricted cash reserved for lending activities	(445)	14,675
Cash associated with consolidation / deconsolidation of subsidiaries		902
Net cash (used in) provided by investing activities	(359)	2,751

Table of Contents**JMP Group Inc.****Consolidated Statements of Cash Flows - (Continued)****(Unaudited)****(In thousands)**

	Nine Months Ended September 30,	
	2010	2009
Cash flows from financing activities:		
Proceeds from issuance of note payable	18,900	6,100
Repayment of note payable	(1,302)	(4,967)
Sale of asset-back securities issued		996
Repurchase of asset-backed securities issued		(555)
Repayment of asset-backed securities issued	(3,475)	(3,668)
Cash dividends paid to stockholders	(873)	(620)
Purchases of shares of common stock for treasury	(8,336)	(1,109)
Capital contributions of noncontrolling interest holders	4,458	300
Dividends paid to noncontrolling interest shareholders	(458)	
Purchase of subsidiary shares from noncontrolling interest holders	(807)	
Proceeds from exercises of stock options		83
Excess tax benefit related to stock-based compensation	(294)	
Net cash provided by (used in) financing activities	7,813	(3,440)
Net (decrease) increase in cash and cash equivalents	(18,064)	8,946
Cash and cash equivalents, beginning of period	75,680	46,262
Cash and cash equivalents, end of period	\$ 57,616	\$ 55,208
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	\$ 3,985	\$ 4,254
Cash paid during the period for taxes	\$ 2,091	\$ 730
Non-cash investing and financing activities:		
Reissuance of shares of common stock from treasury related to vesting of restricted stock units and exercises of stock options	\$ 5,138	\$ 2,215
Fair value of noncash assets acquired in the Cratos acquisition	\$	\$ 376,372
Fair value of noncash liabilities assumed in the Cratos acquisition	\$	\$ 370,776

See accompanying notes to consolidated financial statements.

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JMP GROUP INC.

Notes to Consolidated Financial Statements

September 30, 2010

(Unaudited)

1. Organization and Description of Business

JMP Group Inc., together with its subsidiaries (collectively, the Company), is an independent investment banking and asset management firm headquartered in San Francisco, California. JMP Group Inc. completed its initial public offering on May 16, 2007, and also completed a corporate reorganization (the Reorganization), which is described in greater detail in the Registration Statement on Form S-1 (File No. 333-140689) (the Registration Statement) filed with the Securities and Exchange Commission (SEC) in connection with the initial public offering. The Company conducts its brokerage business through JMP Securities LLC (JMP Securities), its asset management business through Harvest Capital Strategies LLC (HCS), its corporate credit business through JMP Credit Corporation (JMP Credit) and JMP Credit Advisors LLC (JMPCA), and certain principal investments through JMP Capital LLC (JMP Capital). All of the above entities are wholly-owned subsidiaries. JMP Securities is a U.S. registered broker-dealer under the Securities Exchange Act of 1934, as amended, and is a member of the Financial Industry Regulatory Authority (FINRA). JMP Securities operates as an introducing broker and does not hold funds or securities for, or owe any money or securities to, customers and does not carry accounts for customers. All customer transactions are cleared through another broker-dealer on a fully disclosed basis. HCS is a registered investment advisor under the Investment Advisers Act of 1940, as amended, and provides investment management services for sophisticated investors in investment partnerships and other entities managed by HCS. Effective April 7, 2009, through its majority-owned subsidiary JMP Credit, the Company completed the acquisition of 100% of the membership interests of Cratos Capital Partners, LLC (changed its name to JMP Credit Advisors LLC on July 12, 2010) and its subsidiaries, including Cratos Capital Management, LLC (collectively, Cratos), a manager of collateralized loan obligations (CLO), together with certain securities of Cratos CLO I, Ltd. (Cratos CLO). See Note 2 for further details regarding the ownership of Cratos CLO.

2. Summary of Significant Accounting Policies

Basis of Presentation

These consolidated financial statements and related notes are unaudited and have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. These consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and notes thereto included in its annual report on Form 10-K for the year ended December 31, 2009. These consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) that are, in the opinion of management, necessary for the fair statement of the results for the interim periods. The results of operations for any interim period are not necessarily indicative of the results to be expected for a full year.

The consolidated accounts of the Company include the wholly-owned subsidiaries, JMP Securities, HCS, JMP Capital, JMP Credit, JMPCA, and the partially-owned subsidiaries, Harvest Mortgage Opportunities Partners (HMOP) (effective May 1, 2009), JMP Realty Trust (JMPRT) (through January 1, 2009), Opportunity Acquisition Corp. (through December 31, 2009), a special purpose acquisition corporation, or SPAC, formed for the purpose of acquiring one or more businesses through a merger, capital stock exchange, stock purchase, asset acquisition, or other similar business combination and Harvest Growth Capital LLC (HGC) (effective April 1, 2010). The Company was the sponsor of the SPAC. The SPAC was liquidated on December 31, 2009 with no distribution of assets to the Company or noncontrolling interest holders due to its accumulated loss. All material intercompany accounts and transactions have been eliminated in consolidation.

The Company follows the authoritative accounting guidance for the consolidation of variable interest entities (VIEs). Such guidance applies to VIEs, which are entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. When the Company enters into a transaction with a VIE, the Company determines if it is the primary beneficiary of the VIE by performing a qualitative analysis of the VIE that includes a review of, among other factors, its capital structure, contractual terms, related party relationships, the Company's fee arrangements and the design of the VIE. The Company performed this analysis for Cratos CLO and concluded that Cratos CLO is a VIE and that the Company, which manages the CLO and owns approximately 94% of the subordinated notes in the CLO, is deemed the primary beneficiary. As a result, the Company consolidates the assets and liabilities of the CLO securitization entity, and the underlying loans owned by the CLO

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entity are shown on our consolidated statements of financial condition under loans collateralizing asset-backed securities issued and the asset-backed securities (ABS) issued to third parties are shown under asset-backed securities issued.

HCS currently manages several asset management funds, which are structured as limited partnerships, and is the general partner of each. In assessing whether or not to consolidate these funds, the Company follows the accounting guidance on determining whether a general partner controls a limited partnership. Such guidance provides that the presumption that the general partner controls the limited partnership may be overcome if the limited partners have substantive kick-out rights. Except for HMOP and HGC, the partnership agreements for these funds provide for the right of the limited partners to remove the general partners by a simple majority vote of the non-affiliated limited partners. Because of these substantive kick-out rights, the Company, as the general partner, does not control these funds, and therefore does not

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consolidate them except for HMOP and HGC. The Company accounts for its investments in these funds under the equity method of accounting. As described in Note 3 Recent Accounting Pronouncements, in December 2009, the accounting guidance on consolidation was amended to improve the financial reporting by entities involved in VIEs. In February 2010, the consolidation requirements under the amended accounting guidance were indefinitely deferred for a reporting entity's interest in entities that have the attributes of an investment company or for which it is industry practice to apply the specialized industry accounting guidance for investment companies. The Company's investments in the above asset management funds qualify for the deferral, and therefore the new consolidation requirements did not impact our accounting for these funds. If the deferral were to be removed, the Company would be required to evaluate these funds under the new accounting guidance, and based on such evaluation, some if not all of the funds may require consolidation.

Noncontrolling interest on the consolidated statements of financial condition at September 30, 2010 relates to the interest of third parties in Cratos CLO, HMOP and HGC, partially-owned subsidiaries consolidated in our financial statements. Noncontrolling interest on the consolidated statements of financial condition at December 31, 2009 relates to the interest of third parties in JMP Credit, HMOP and HGC, partially-owned subsidiaries consolidated in our financial statements. On August 6, 2010, the Company and individual employee security holders (the Unitholders) of JMP Credit entered into an Exchange Agreement providing for, among other things, an offer to buy the minority interest units and shares in JMP Credit held by the Unitholders in exchange for a combination of (i) restricted common stock of the Company par value \$.001 per share, (ii) cash and (iii) certain Cratos CLO subordinated notes in such amounts as elected by the Unitholder. In connection with the Exchange Agreement, the Company issued an aggregate of 381,310 shares of restricted stock to the Unitholders and the Company received all the remaining units and shares of JMP Credit that it did not previously own. The restricted stock and the Cratos CLO notes are subject to limitations on transfer and repurchase rights of the Company in the event of certain terminations of the Unitholder's employment with the Company or its affiliates through June 1, 2013. As a result of this transaction, the Company's ownership of JMP Credit increased from approximately 93% to 100% and the Company's ownership of Cratos CLO decreased from 100% to approximately 94% effective August 6, 2010.

JMPRT was a real estate investment trust that was formed in June 2006. As of December 31, 2008, the Company owned 49.5% of JMPRT and certain employees owned 20.1%. Because of its ownership and management position, the Company consolidated JMPRT and recorded a noncontrolling interest through December 31, 2008. On January 2, 2009, all of the assets and liabilities within JMPRT were transferred to HMOP, a hedge fund managed by HCS. HMOP is a Delaware limited partnership organized for the purposes of investing in real estate-related assets which may include investments in residential or commercial mortgages or loans, real estate and other assets, loans and participation in loans of all types, other specialty mortgage products, and securities. HCS is the general partner of HMOP. Because of substantive kick-out rights, the Company, as the general partner, did not control HMOP and therefore did not consolidate HMOP from January 2, 2009 through April 30, 2009. During the quarter ended June 30, 2009, several non-affiliated limited partners redeemed their interest in HMOP, and the remaining limited partners were no longer deemed to have substantive kick-out rights. As a result, the Company consolidates HMOP in its consolidated financial statements effective May 1, 2009.

On July 31, 2009, JMP Capital received 100% of the membership interest in LSC III, LLC (LSC) in full satisfaction of a \$2.4 million non-revolving credit note. LSC is an investment partnership and owns shares of common and preferred stock of two privately-held companies. LSC subsequently changed its name to Harvest Growth Capital LLC (HGC) and amended its limited liability company agreement. Under the amended agreement, HGC appointed HCS as the manager, accepted new members and launched on April 1, 2010 as a new private equity fund. JMP Capital retained an interest in one privately-held company which was valued at \$0.6 million as of April 1, 2010. The members of HGC do not have substantive kick-out rights to remove HCS as manager and therefore HCS is deemed to control HGC. As a result, the Company consolidates HGC in its consolidated financial statements.

On January 18, 2008, JMP Group Inc. and certain unconsolidated affiliates made an investment in convertible preferred stock of New York Mortgage Trust, Inc. (NYMT), a publicly traded real estate investment trust engaged in the investment management of mortgage-backed securities and high credit quality residential adjustable rate mortgage loans. Such investment by JMP Group Inc. and affiliated entities was \$20.0 million in total, comprised of \$5.0 million by JMP Group Inc., \$5.0 million by certain funds managed by HCS, and \$10.0 million by JMPRT. JMPRT's investment in NYMT was transferred to HMOP on January 2, 2009. In addition, JMP Group Inc. invested \$4.5 million in the common stock of NYMT on February 14, 2008 via a private investment in public equity (PIPE) transaction. At September 30, 2010, JMP Group Inc. owned approximately 7.1% of NYMT's common stock. In addition, JMP Group Inc. and affiliated entities collectively owned 1.0 million shares of NYMT's Series A Preferred Stock at September 30, 2010. The Series A Preferred Stock is convertible into shares of NYMT's common stock based on a conversion price of \$8.00 per share of common stock, which represents a conversion rate of two and one-half (2 1/2) shares of common stock for each share of Series A Preferred Stock. The Series A Preferred Stock matures on December 31, 2010, at which time any outstanding shares must be redeemed by NYMT at the \$20.00 per share liquidation preference. Because of its current ownership and management position, the Company does not consolidate NYMT. The Company accounts for its investment in NYMT using the fair value option. See Note 23 for the summarized financial information of NYMT.

Use of Estimates

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The preparation of consolidated financial statements in conformity with GAAP requires the use of estimates and assumptions that affect both the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Table of Contents*Revenue Recognition**Investment banking revenues*

Investment banking revenues consist of underwriting revenues, strategic advisory revenues and private placement fees, and are recorded when the underlying transaction is completed under the terms of the relevant agreement. Underwriting revenues arise from securities offerings in which the Company acts as an underwriter and include management fees, selling concessions and underwriting fees, net of related syndicate expenses. Management fees and selling concessions are recorded on the trade date, which is typically the day of pricing an offering (or the following day) and underwriting fees, net of related syndicate expenses, at the time the underwriting is completed and the related income is reasonably determinable. For these transactions, management estimates the Company's share of the transaction-related expenses incurred by the syndicate, and recognizes revenues net of such expense. On final settlement, typically 90 days from the trade date of the transaction, these amounts are adjusted to reflect the actual transaction-related expenses and the resulting underwriting fee. Expenses associated with such transactions are deferred until the related revenue is recognized or the engagement is otherwise concluded. If management determines that a transaction is likely not to be completed, deferred expenses related to that transaction are expensed at that time. In connection with some underwritten transactions, the Company may hold in inventory, for a period of time, equity positions to facilitate the completion of the underwritten transactions. Realized and unrealized net gains and losses on these positions are recorded within investment banking revenues. Strategic advisory revenues primarily include success fees on closed merger and acquisition transactions, as well as retainer fees, earned in connection with advising on both buyers' and sellers' transactions. Fees are also earned for related advisory work and other services such as providing fairness opinions and valuation analyses. Strategic advisory revenues are recorded when the transactions or the services (or, if applicable, separate components thereof) to be performed are substantially complete, the fees are determinable and collection is reasonably assured. Private placement fees are related to non-underwritten transactions such as private placements of equity securities, private investments in public equity (PIPE), Rule 144A private offerings and trust preferred securities offerings and are recorded on the closing date of the transaction. Unreimbursed expenses associated with strategic advisory and private placement transactions, net of client reimbursements, are recorded in the Consolidated Statements of Operations within various expense captions other than compensation expense.

Brokerage revenues

Brokerage revenues consist of (i) commissions resulting from equity securities transactions executed as agent or principal and are recorded on a trade date basis, (ii) related net trading gains and losses from market making activities and from the commitment of capital to facilitate customer orders and (iii) fees paid for equity research. The Company currently generates revenues from research activities through three types of arrangements. First, through what is commonly known as a soft dollar practice, a portion of a client's commissions may be compensation for the value of access to our research. Those commissions are recognized on a trade date basis, as the Company has no further obligation. Second, a client may issue a cash payment directly to the Company for access to research. Third, the Company has entered into certain commission-sharing or tri-party arrangements in which institutional clients execute trades with a limited number of brokers and instruct those brokers to allocate a portion of the commission to the Company or to issue a cash payment to the Company.

In these commission-sharing or tri-party arrangements, the amount of the fee is determined by the client on a case-by-case basis and agreed to by the Company. An invoice is then sent to the payor. For the second and third type of arrangements, revenue is recognized and an invoice is sent once an arrangement exists, access to research has been provided, a specific amount is fixed or determinable, and collectability is reasonably assured. None of these arrangements obligate clients to a fixed amount of fees for research, either through trading commissions or direct or indirect cash payments, nor do they obligate the Company to provide a fixed quantity of research or execute a fixed number of trades. Furthermore, the Company is not obligated under any arrangement to make commission payments to third parties on behalf of clients.

Asset Management Fees

Asset management fees for hedge funds, funds of funds and private equity funds consist of base management fees and incentive fees. The Company recognizes base management fees on a monthly basis over the period in which the investment services are performed. Base management fees earned by the Company are generally based on the fair value of assets under management and the fee schedule for each fund and account. Base management fees for hedge funds and funds of funds are calculated at the investor level using their quarter-beginning capital balance adjusted for any contributions or withdrawals. Base management fees for private equity funds are calculated at the investor level using their aggregate capital commitments during the commitment period, which is generally three years from first closing, and on invested capital following the commitment period. The Company also earns incentive fees for hedge funds and funds of funds that are based upon the performance of investment funds and accounts. Such fees are either a specified percentage of the total investment return of a fund or account or a percentage of the excess of an investment return over a specified highwater mark or hurdle rate over a defined performance period. For most

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funds, the highwater mark is calculated using the greatest value of a partner's capital account as of the end of any performance period, increased for contributions and decreased for withdrawals. Incentive fees are recognized as revenue at the end of the specified performance period. The performance period used to determine the incentive fee is quarterly for the hedge funds, HMOP and NYMT, and annually for the funds of hedge funds managed by HCS. Generally the incentive fees are reinvested in the investment funds in which we hold a general partner investment. The incentive fees are not subject to any contingent repayments to investors or any other clawback arrangements. Incentive fees for private equity funds are based on a specified percentage of realized gains from the disposition of each portfolio investment in which each investor participates, and are earned by the Company after returning contributions by the investors for that portfolio investment and for all other portfolio investments in which each such investor participates that have been disposed of at the time of distribution.

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Asset management fees for the two CLOs the Company manages currently consist only of base management fees. For one of the CLOs, the Company earns incentive fees in the event that specified cumulative investment returns are achieved, but such investment returns have not been achieved yet. The Company recognizes base management fees for the CLOs on a monthly basis over the period in which the collateral management services are performed. The base management fees for the CLOs are calculated as a percentage of the average aggregate collateral balances for a specified period. As we consolidate Cratos CLO, the management fees earned at JMPCA from Cratos CLO are eliminated on consolidation in accordance with U.S. GAAP.

Principal transactions

Principal transaction revenues include realized and unrealized net gains and losses resulting from our principal investments in equity and other securities for the Company's account and in equity-linked warrants received from certain investment banking assignments, as well as limited partner investments in private funds managed by third parties, our investment in NYMT and interest rate cap. Unrealized gain (loss) on interest rate cap was recorded in principal transaction revenues through June 30, 2010. Effective July 1, 2010, such gain (loss) is recorded in other comprehensive income (loss). See Note 9 for more information. Principal transaction revenues also include earnings (or losses) attributable to investment partnership interests held by our asset management subsidiary, HCS, which are accounted for using the equity method of accounting.

The Company's principal transaction revenues for these categories for the three and nine months ended September 30, 2010 and 2009 are as follows:

<i>(In thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Equity and other securities	\$ 1,194	\$ 4,894	\$ 2,487	\$ 9,390
Warrants and other investments	23	(16)	198	(92)
Investment partnerships	(162)	1,103	202	6,105
Total principal transaction revenues	\$ 1,055	\$ 5,981	\$ 2,887	\$ 15,403

Gain on Sale and Payoff of Loans

Gain on sale and payoff of loans consists of gains from the sale and payoff of loans collateralizing asset-backed securities at JMP Credit. Gains are recorded when the proceeds exceed our carrying value of the loan.

Interest Income

Interest income primarily relates to income earned on loans. Interest income on loans comprises the stated coupon as a percentage of the face amount receivable as well as accretion of accretable or purchase discounts and deferred fees, see *Loans held for investment and Loans collateralizing asset-backed securities issued* for more information. Interest income is recorded on the accrual basis in accordance with the terms of the respective loans unless such loans are placed on non-accrual status.

Interest Expense

Interest expense primarily relates to expense incurred on asset-backed securities issued and note payable. Interest expense on asset-backed securities issued is the stated coupon as a percentage of the principal amount payable as well as amortization of liquidity discount which was recorded at the acquisition date of Cratos, see *Asset-backed securities issued* for more information. Interest expense is recorded on the accrual basis in accordance with the terms of the respective asset-backed securities issued and note payable.

Cash and Cash Equivalents

The Company considers highly liquid investments with original maturities or remaining maturities upon purchase of three months or less to be cash equivalents. The Company holds cash in financial institutions in excess of the FDIC insured limits. The Company periodically reviews the financial condition of the financial institutions and assesses the credit risk.

Restricted Cash and Deposits

Restricted cash and deposits include principal and interest payments that are collateral for the asset-backed securities issued by Cratos. They also include proceeds from short sales deposited with brokers that cannot be removed unless the securities are delivered, cash collateral supporting standby letters of credit issued by JMP Credit, cash on deposit for operating leases, and cash on deposit with JMP Securities clearing broker.

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Restricted cash consisted of the following at September 30, 2010 and December 31, 2009:

<i>(In thousands)</i>	September 30, 2010	December 31, 2009
Principal and interest payments held as collateral for asset-backed securities issued	\$ 34,825	\$ 33,349
Cash collateral supporting standby letters of credit	248	1,340
Proceeds from short sales	9,746	1,047
Deposit with clearing broker	255	255
Deposits for operating leases	636	637
	\$ 45,710	\$ 36,628

Receivable from Clearing Broker

The Company clears customer transactions through another broker-dealer on a fully disclosed basis. At both September 30, 2010 and December 31, 2009, the receivable from clearing broker consisted solely of commissions related to securities transactions.

Investment Banking Fees Receivable

Investment banking fees receivable include receivables relating to the Company's investment banking or advisory engagements. The Company records an allowance for doubtful accounts on these receivables on a specific identification basis. The allowance for doubtful accounts related to investment banking fee receivable was zero at both September 30, 2010 and December 31, 2009.

Fair Value of Financial Instruments

The Company adopted amended accounting principles related to fair value measurements as of January 1, 2008. The amendment establishes a consistent framework for measuring fair value in accordance with GAAP and expands disclosures with respect to fair value measurements. The amendment applies to all financial instruments that are being measured and reported on a fair value basis. This includes those items currently reported in marketable securities owned, at fair value, other investments and marketable securities sold, not yet purchased, at fair value on the consolidated statements of financial condition. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 4 of the Notes to the consolidated financial statements for the disclosures related to the fair value of our marketable securities and other investments.

Most of the Company's financial instruments, other than loans collateralizing asset-backed securities issued, loans held for investment, asset-backed securities issued and investment in HuaMei Capital Company, Inc., Sanctuary Wealth Services LLC, and Princeton Advisory Group, Inc. are recorded at fair value or amounts that approximate fair value. See Note 4 for the description of our investments in HuaMei Capital Company, Inc., Sanctuary Wealth Services LLC and Princeton Advisory Group, Inc.

Marketable securities owned, other investments (excluding investments in HuaMei Capital Company, Inc., Sanctuary Wealth Services LLC and Princeton Advisory Group, Inc.) and marketable securities sold, but not yet purchased, are classified as trading securities and stated at fair value, with related changes in unrealized appreciation or depreciation reflected in the line item principal transactions in the accompanying Consolidated Statements of Operations.

Fair value of the Company's financial instruments is generally obtained from quoted market prices, broker or dealer price quotations, or alternative pricing methodologies that the Company believes offer reasonable levels of price transparency. To the extent that certain financial instruments trade infrequently or are non-marketable securities and, therefore, do not have readily determinable fair values, the Company estimates the fair value of these instruments using various pricing models and the information available to the Company that it deems most relevant. Among the factors considered by the Company in determining the fair value of financial instruments are discounted anticipated cash flows, the cost, terms and liquidity of the instrument, the financial condition, operating results and credit ratings of the issuer or underlying company, the quoted market price of publicly traded securities with similar duration and yield, the Black-Scholes Options Valuation methodology adjusted for active market and other considerations on a case-by-case basis and other factors generally pertinent to the valuation of

financial instruments.

Marketable securities owned and securities sold, but not yet purchased, consist of U.S. listed and over-the-counter (OTC) equity securities. Other investments include investments in private investment funds managed by the Company or its affiliates and an investment in a private investment fund managed by a third party. Such investments held by non-broker-dealer entities are accounted for under the equity method based on the Company's share of the earnings (or losses) of the investee. The financial position and operating results of the private investment funds are generally determined on an estimated fair value basis. Generally, securities are valued (i) at their last published sale price

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if they are listed on an established exchange or (ii) if last sales prices are not published, at the highest closing bid price (for securities held long) and the lowest closing asked price (for short positions) as recorded by the composite tape system or such principal exchange, as the case may be. Where the general partner determines that market prices or quotations do not fairly represent the value of a security in the investment fund's portfolio (for example, if a security is a restricted security of a class that is publicly traded) the general partner may assign a different value. The general partner will determine the estimated fair value of any assets that are not publicly traded.

Also included in other investments are convertible preferred stock of NYMT, warrants on public and private common stock, private equity securities owned by HGC and JMP Capital and an interest rate cap derivative instrument. The investment in NYMT convertible preferred stock is based on a fair value estimate using the Black-Scholes credit adjusted valuation model on Bloomberg. The warrants on public and private common stock are generally received as a result of investment banking transactions and are valued at estimated fair value as determined by management. Warrants owned are valued at the date of issuance and marked-to-market as of each reporting period. Estimated fair value is determined using the Black-Scholes Options Valuation methodology adjusted for active market and other considerations on a case-by-case basis. The fair value of the private equity securities owned by HGC and JMP Capital is determined by the Company using comparable public company metrics discounted for private company market illiquidity. The interest rate cap derivative instrument fair value is determined from counterparty price quotations.

The Company follows the authoritative guidance included in GAAP on the fair value option which provides companies with a choice to report selected financial assets and financial liabilities at fair value. The election to use the fair value option is available at specified election dates, such as when an entity first recognizes a financial asset or financial liability or upon entering into a firm commitment. Subsequent changes in fair value must be recorded in the Consolidated Statements of Operations. We elected to apply the fair value option to our investments in NYMT convertible preferred and common stock. The primary reason for electing the fair value option was to measure these investments on the same basis as our other equity securities, all of which are stated at fair value.

Dividends received during both quarters ended September 30, 2010 and 2009 on NYMT stock of \$0.5 million were recorded in net dividend income on our Consolidated Statements of Operations. Dividends received during the nine months ended September 30, 2010 and 2009 on NYMT stock of \$1.6 million and \$1.3 million, respectively, were recorded in net dividend income on our Consolidated Statements of Operations. For the three months ended September 30, 2010 and 2009, the Company recorded unrealized loss of \$0.2 million and unrealized gain of \$2.3 million, respectively, on the above investments in NYMT. For the nine months ended September 30, 2010 and 2009, the Company recorded unrealized loss of \$0.5 million and unrealized gain of \$5.6 million, respectively, on the above investments in NYMT. The unrealized gains on our investments in NYMT are reported in Principal Transactions in the Consolidated Statements of Operations.

Derivative Financial Instruments

The Company has entered into a derivative contract in order to hedge the interest rate exposure of its short-term and long-term borrowings. Currently, the Company does not enter into derivative contracts for any other purposes. Derivative financial instruments are recorded in the Consolidated Statements of Financial Condition at fair value. At the inception of the contract, the Company designated and documented the derivative contract as a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge). For this cash flow hedge, the Company records changes in the fair value of the derivative to the extent that it is effective in other comprehensive (loss) income and subsequently reclassifies these changes in fair value to net income in the same period(s) that the hedged transaction affects earnings. Such reclassification from other comprehensive income (loss) to earnings is recorded in the same financial statement category as the hedged item. The Company formally documents at inception its hedge relationships, including identification of the hedging instruments and the hedged items, its risk management objectives, strategy for undertaking the hedge transaction and the Company's evaluation of effectiveness of its hedged transactions. Periodically, the Company also formally assesses whether the derivative designated in each hedging relationship is expected to be and has been highly effective in offsetting changes in cash flows of the hedged item using the dollar offset method. If the Company determines that a derivative is not highly effective as a hedge, it discontinues hedge accounting.

Loans Held for Investment

Loans held for investment are carried at their unpaid principal balance, net of any allowance for credit losses or deferred loan origination or commitment fees. For loans held for investment, we establish and maintain an allowance for credit losses based on management's estimate of credit losses in our loans as of each reporting date. The Company records the allowance against loans held for investment on a specific identification basis. Loans are charged off against the reserve for credit losses if the principal is deemed not recoverable within a reasonable timeframe. Loan origination and commitment fees are deferred and recognized into Interest income in the Consolidated Statements of Operations over the life of the related loan. The Company does not accrue interest on loans which are in default for more than 90 days and loans which we expect full principal payments may not be received.

Loans Collateralizing Asset-Backed Securities Issued

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Loans collateralizing asset-backed securities issued are commercial loans securitized and owned by Cratos CLO. Loans acquired through the acquisition and resulting consolidation of Cratos were recorded at their fair value as of the acquisition date. Any unamortized deferred fees or costs related to the loans that existed prior to the acquisition were written off at that date.

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For those loans deemed impaired as of the date of the acquisition, the total discount from outstanding principal balance to fair value consists of a nonaccretable credit discount and in most cases an accretable liquidity (or market value) discount. For the remaining loans acquired through the purchase of Cratos, any discounts to fair value were recorded as accretable liquidity discounts as they were not attributable to credit impairment. For both types of loans, the accretable portion of the discount is recognized into interest income as an adjustment to the yield of the loan over the contractual life of the loan using the interest method.

The Company continues to estimate the cash flows expected to be collected over the life of the loans acquired through the purchase of Cratos. If, upon subsequent evaluation, the Company believes it is unable to collect all cash flows expected at the acquisition date plus additional cash flows expected to be collected arising from changes in the estimate after the acquisition, the loan is considered impaired. Loans considered impaired at the acquisition date of Cratos continue to be assessed in accordance with the authoritative guidance under GAAP on loan impairment. If based on current information and events, it is probable that there is a significant increase in cash flows previously expected to be collected or if actual cash flows are significantly greater than cash flows previously expected, the Company will first reduce any remaining credit discounts (including allowances for loan losses) for the loans established after its acquisition for the increase in the present value of cash flows expected to be collected. Then the Company will recalculate the amount of accretable yield for the loan as the excess of the revised cash flows expected to be collected over the sum of (a) the initial investment, less (b) cash collected, less (c) write-downs, plus (d) amount of yield accreted to date. The Company will adjust the amount of accretable yield by reclassification from nonaccretable discount. The adjustment is accounted for as a change in estimate, with the amount of periodic accretion adjusted over the remaining life of the loan. The resulting yield is then used as the effective interest rate in any subsequent accounting.

Loans purchased or originated after the acquisition date of Cratos are stated at the principal amount outstanding net of deferred fees, deferred costs and the allowance for loan losses. Net deferred fees or costs are recognized as an adjustment to interest income over the contractual life of the loans using the interest method. Remaining amounts are recognized into income when the related loans are paid off or sold. Any discount from principal amount of purchased loans is accreted into interest income as a yield adjustment over the contractual life of the loan using the interest method.

The accrual of interest on loans is discontinued when principal or interest payments are 90 days or more past due or when, in the opinion of management, reasonable doubt exists as to the full collection of principal and/or interest. When loans are placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Any reversals of income from previous years are recorded against the allowance for loan losses. When the Company receives a cash interest payment on a non-accrual loan, it is applied as a reduction of the principal balance. Non-accrual loans are returned to accrual status when the borrower becomes current as to principal and interest and has demonstrated a sustained period of payment performance. The amortization of loan fees is discontinued on nonaccrual loans and may be considered for write-off. Depending on the terms of the loan, a fee may be charged upon a prepayment which is recognized in the period of the prepayment.

Allowance for Loan Losses

The Company maintains an allowance for loan losses that is intended to estimate loan losses inherent in its loan portfolio. A provision for loan losses is charged to expense to establish the allowance for loan losses. The allowance for loan losses is maintained at a level, in the opinion of management, sufficient to offset estimated losses inherent in the loan portfolio as of the date of the financial statements. The appropriateness of the allowance and the allowance components are reviewed quarterly. The Company's estimate of each allowance component is based on observable information and on market and third party data that the Company believes are reflective of the underlying loan losses being estimated.

The Company provides an allowance for loans that are considered impaired. A loan is considered impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. The Company measures impairment of a loan based upon either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price or the fair value of the collateral securing the loan if the loan is collateral dependent, depending on the circumstances and the Company's collection strategy. For those loans held by Cratos at the date of acquisition by JMP Credit, and deemed impaired at that date or a subsequent date, allowance for loan losses is calculated considering two further factors. For loans deemed impaired at the date of acquisition if there is a further decline in expected future cash flows, the reduction is recognized as a specific reserve in the current quarter in accordance with above. For those loans deemed impaired subsequent to the acquisition date, if the net realizable value is lower than the current carrying value, then the carrying value is reduced and the difference is booked as provision for loan losses. If the total discount from unpaid principal balance to carrying value is larger than the expected loss at the date of assessment, no provision for loan losses is recognized.

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In addition, the Company provides an allowance on a loan by loan basis at JMP Credit for loans that were purchased after the Cratos acquisition. The Company employs internally developed and third party estimation tools for measuring credit risk (loan ratings, probability of default, and exposure at default), which are used in developing an appropriate allowance for loan losses. The Company performs periodic detailed reviews of its loan portfolio to identify risks and to assess the overall collectibility of loans.

Loans that are deemed to be uncollectible are charged off and the charged-off amount is deducted from the allowance.

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Asset-Backed Securities Issued

Asset-backed securities (ABS) represent securities issued to third parties by Cratos CLO in 2007. The Company consolidated Cratos CLO for financial reporting purposes as of the April 7, 2009 acquisition date. At the acquisition date, the ABS were recorded at fair value, which comprised the principal balance outstanding less liquidity discount. The liquidity discount will be amortized into interest expense over the expected remaining lives of the ABS using the interest method.

Fixed Assets

Fixed assets represent furniture and fixtures, computer and office equipment, certain software costs and leasehold improvements, which are stated at cost less accumulated depreciation and amortization. Depreciation is computed on the straight-line basis over the estimated useful lives of the respective assets, ranging from three to five years.

Leasehold improvements are capitalized and amortized over the shorter of the respective lease terms or the estimated useful lives of the improvements.

The Company capitalizes certain costs of computer software developed or obtained for internal use and amortizes the amount over the estimated useful life of the software, generally not exceeding three years.

Purchased Management Contract

Purchased management contract relates to the CLO contract the Company purchased from Princeton Advisory Group, Inc. on September 8, 2010 (see Note 8) and is included in other assets on the Consolidated Statements of Financial Condition. The purchased management contract is amortized over its estimated life. The Company tests the purchased management contract for impairment whenever events or changes in circumstances suggest that the asset's carrying value may not be fully recoverable. An impairment loss, calculated as the difference between the estimated fair value and the carrying value of the asset, is recognized if the sum of the estimated undiscounted cash flows relating to the asset is less than the corresponding carrying value.

Income Taxes

The Company recognizes deferred tax assets and liabilities based upon the temporary differences between the financial reporting and tax bases of its assets and liabilities. Valuation allowances are established when necessary to reduce the deferred tax assets when it is more likely than not that a portion or all of the deferred tax assets will not be realized.

The Company adopted the accounting principles related to uncertainty in income taxes on May 16, 2007, the date the Company became subject to federal and state income taxes. Its adoption did not have a material impact on the Company's financial condition or results of operations. Under the guidance, the Company recognizes a tax benefit from an uncertain position only if it is more likely than not that the position is sustainable, based solely on its technical merits and consideration of the relevant taxing authority's widely understood administrative practices and precedents. If this threshold is met, the Company measures the tax benefit as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement.

Stock-Based Compensation

The Company recognizes compensation cost for stock-based awards at their fair value on the date of grant and records compensation expense over the service period for awards expected to vest. Such grants are recognized as expense, net of estimated forfeitures.

Stock-based compensation includes restricted stock units and stock options granted under the Company's 2007 Equity Incentive Plan, and stock options granted under the Company's 2004 Equity Incentive Plan.

In accordance with generally accepted valuation practices for stock-based awards issued as compensation, the Company uses the Black-Scholes option-pricing model to calculate the fair value of option awards, although such models were originally developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differ from the Company's stock options and restricted stock units. The Black-Scholes model requires subjective assumptions regarding variables such as future stock price volatility, dividend yield

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and expected time to exercise, which greatly affect the calculated values.

Treasury Stock

The Company accounts for treasury stock under the cost method, using an average cost flow assumption, and includes treasury stock as a component of shareholders' equity.

Reclassification

Certain balances from prior years have been reclassified in order to conform to the current year presentation. The reclassifications had no impact on the Company's financial position, net income or cash flows.

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3. Recent Accounting Pronouncements

Accounting Standards Update (ASU) 2010-20, Receivables (Topic 310): Disclosure about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. In July 2010, the Financial Accounting Standards Board (the FASB) issued ASU 2010-20 which amends Topic 310 to improve the disclosures that an entity provides about the credit quality of its financing receivables and the related allowance for credit losses. As a result of these amendments, an entity is required to disaggregate by portfolio segment or class certain existing disclosures and provide certain new disclosures about its financing receivables and related allowance for credit losses. The disclosures required by ASU 2010-20 are effective for annual and interim periods ending on or after December 15, 2010 except for the disclosures about the activity that occurs during a reporting period which are effective for annual and interim periods beginning on or after December 15, 2010. Since ASU 2010-20 only requires additional disclosures about financing receivables and related allowance for credit losses, the Company does not expect this to have an impact on our consolidated financial position or results of operations.

ASU 2009-17, Consolidation (Topic 810): Improvements to Financial Reporting by Enterprises Involved in Variable Interest Entities. In December 2009, the FASB issued ASU 2009-17 which amends the accounting standard related to the consolidation of variable interest entities (VIE). The amendments replace the existing guidance on determining which reporting entity, if any, has a controlling financial interest in a VIE with an approach focused on identifying which reporting entity has (1) the power to direct the activities of a VIE that most significantly impact the entity's economic performance and (2) the obligation to absorb losses or the right to receive benefits of the entity that could potentially be significant to the VIE. In February 2010, the FASB issued ASU 2010-10, Consolidation (Topic 810): Amendments for Certain Investment Funds, which indefinitely defers the consolidation requirements of ASU 2009-17 for a reporting entity's interest in an entity that has all the attributes of an investment company or for which it is industry practice to apply the specialized industry accounting guidance for investment companies. The hedge funds and funds of funds managed by HCS qualify for the deferral, and therefore, the Company continues to apply the historical accounting standard related to the consolidation of VIEs to its investment in such funds. The Company adopted ASU 2009-17 and ASU 2010-10 in the first quarter of 2010, and the adoption of these amendments did not have an impact on our consolidated financial position or results of operations.

4. Marketable Securities and Other Investments

Other Investments at Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various methods including market, income and cost approaches. Based on these approaches, the Company often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable firm inputs. The Company generally utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Company provides the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial instrument assets and liabilities carried at fair value have been classified and disclosed in one of the following three categories:

- Level 1 Quoted market prices in active markets for identical assets or liabilities.
- Level 2 Observable market based inputs or unobservable inputs that are corroborated by market data.
- Level 3 Unobservable inputs that are not corroborated by market data.

Level 1 primarily consists of financial instruments whose value is based on quoted market prices such as U.S. listed and OTC equity securities, as well as quasi-government agency securities, all of which are carried at fair value.

Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including discounted anticipated cash flows, the cost, terms and liquidity of the instrument, the financial condition, operating results and credit ratings of the issuer or underlying company, the quoted market price of publicly traded securities with similar duration and yield, time value, yield curve, prepayment speeds, default rates, loss severity, as well as other measurements. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Included in this category is the general partner investment in hedge funds, where the underlying hedge funds are mainly invested in publicly traded stocks whose value is based on quoted market prices.

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Level 3 is comprised of financial instruments whose fair value is estimated based on internally developed models or methodologies utilizing significant inputs that are generally less readily observable from objective sources. A description of the valuation techniques utilized for the fair value of the financial instruments in this category is as follows:

General partner investment in funds of funds and limited partner investment in mortgage and private equity fund: determined by net asset value provided by third party general partners;

Investment in NYMT convertible preferred stock: determined by the Company using the Black-Scholes credit adjusted valuation model on Bloomberg;

Warrants: determined by the Company using the Black-Scholes Options Valuation model, and

Private equity securities: HGC and JMP Capital investment in private companies, determined by the Company using comparable public company metrics discounted for private company market illiquidity.

At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

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The following tables provide fair value information related to the Company's financial assets and liabilities at September 30, 2010 and December 31, 2009:

<i>(In thousands)</i>	Assets at Fair Value as of			Total
	Level 1	Level 2	Level 3	
Financial instruments owned, at fair value:				
Marketable securities owned:				
Equity securities	\$ 15,005	\$	\$	\$ 15,005
Total marketable securities owned	\$ 15,005	\$	\$	\$ 15,005
Other investments:				
General partner investment in hedge funds	\$	\$ 24,517	\$	\$ 24,517
General partner investment in funds of funds			98	98
Total general partner investment in funds		24,517	98	24,615
Limited partner investment in private equity fund			2,868	2,868
Limited partner investment in mortgage fund			170	170
Investment in NYMT convertible preferred stock			15,000	15,000
Private equity securities			6,687	6,687
Interest rate cap (1)	62			62
Total other investments	\$ 62	\$ 24,517	\$ 24,823	\$ 49,402

- (1) On May 29, 2010 the Company entered into an interest rate cap with City National Bank to effectively lock in or fix the interest rate on its revolving line of credit and term loan from July 1, 2010 through maturity. See Derivative Financial Instruments later in this footnote for further details.

<i>(In thousands)</i>	Assets at Fair Value as of			Total
	Level 1	Level 2	Level 3	
Financial instruments owned, at fair value:				
Marketable securities owned:				
Equity securities	\$ 5,899	\$	\$	\$ 5,899
Total marketable securities owned	\$ 5,899	\$	\$	\$ 5,899
Other investments:				
General partner investment in hedge funds	\$	\$ 33,313	\$	\$ 33,313
General partner investment in funds of funds			2,933	2,933
Total general partner investment in funds		33,313	2,933	36,246
Limited partner investment in private equity fund			2,476	2,476
Limited partner investment in mortgage fund			1,147	1,147
Investment in NYMT convertible preferred stock			15,000	15,000
Private equity securities			2,321	2,321

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Total other investments	\$	\$ 33,313	\$ 23,877	\$ 57,190
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(In thousands)

	Liabilities at Fair Value as of September 30, 2010			
	Level 1	Level 2	Level 3	Total
Financial instruments sold, but not yet purchased, at fair value:				
Marketable securities sold, but not yet purchased	\$ 9,746	\$	\$	\$ 9,746

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<i>(In thousands)</i>	Liabilities at Fair Value as of December 31, 2009			
	Level 1	Level 2	Level 3	Total
Financial instruments sold, but not yet purchased, at fair value:				
Marketable securities sold, but not yet purchased	\$ 1,047	\$	\$	\$ 1,047

The tables below provide a reconciliation of the beginning and ending balances for the assets at fair value using significant unobservable inputs (Level 3) for the three months ended September 30, 2010 and 2009.

<i>(In thousands)</i>	Balance as of June 30, 2010	Purchases/ (sales), net	Total gains (losses) - realized and unrealized	Transfers in/(out) of Level 3	Balance as of September 30, 2010	Unrealized gains/(losses) included in earnings related to assets still held at reporting date
General partner investment in funds of funds	\$ 99	\$	\$ (1)	\$	\$ 98	\$ (1)
Limited partner investment in private equity fund	2,824	(1)	45		2,868	45
Limited partner investment in mortgage fund	214	(73)	29		170	29
Investment in NYMT convertible preferred stock	15,000				15,000	
Private equity securities	5,151	299	1,237		6,687	1,237
Total Level 3 assets	\$ 23,288	\$ 225	\$ 1,310	\$	\$ 24,823	\$ 1,310

<i>(In thousands)</i>	Balance as of June 30, 2009	Purchases/ (sales), net	Total gains (losses) - realized and unrealized	Transfers in/(out) of Level 3	Balance as of September 30, 2009	Unrealized gains/(losses) included in earnings related to assets still held at reporting date
General partner investment in funds of funds	\$ 3,787	\$	\$ 122	\$	\$ 3,909	\$ 122
Limited partner investment in private equity fund	2,391		5		2,396	5
Limited partner investment in mortgage fund		(394)	27	2,000 (2)	1,633	27
Investment in NYMT convertible preferred stock	13,868		878		14,746	878
Warrants	244	74	(243)		75	(243)
Private equity securities		2,435(1)			2,435	
Total Level 3 assets	\$ 20,290	\$ 2,115	\$ 789	\$ 2,000	\$ 25,194	\$ 789

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- (1) On July 31, 2009, the Company received 100% of the membership interest in LSC III, LLC (LSC) in full satisfaction of a \$2.4 million non-revolving credit note. LSC was an investment partnership and owned shares of common and preferred stock of two privately-held companies which had an aggregate fair value of \$2.4 million at July 31, 2009. The Company had a controlling financial interest in LSC and therefore consolidated LSC in its consolidated financial statements effective July 31, 2009. The two investments owned by LSC were recorded at fair value as of July 31, 2009 and were included in the Company's Level 3 assets as of September 30, 2009. LSC subsequently changed its name to Harvest Growth Capital LLC and launched on April 1, 2010 as a new private equity fund (see Note 2).

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(2) During the quarter ended September 30, 2009, the Company's limited partner investment in a mortgage fund was transferred from Level 2 to Level 3 within the fair value hierarchy due to reduced observability of the inputs used to value the fund's underlying investments. The tables below provide a reconciliation of the beginning and ending balances for the assets at fair value using significant unobservable inputs (Level 3) for the nine months ended September 30, 2010 and 2009.

<i>(In thousands)</i>	Balance as of December 31, 2009	Purchases/(sales), net	Total gains (losses) - realized and unrealized	Transfers in/(out) of Level 3	Balance as of September 30, 2010	Unrealized gains/(losses) included in earnings related to assets still held at reporting date
General partner investment in funds of funds	\$ 2,933	\$ (2,950)	\$ 115	\$	\$ 98	\$ 115
Limited partner investment in private equity fund	2,476	35	357		2,868	357
Limited partner investment in mortgage fund	1,147	(1,153)	176		170	27
Investment in NYMT convertible preferred stock	15,000				15,000	
Warrants						
Private equity securities	2,321	2,742	1,624		6,687	1,624
Total Level 3 assets	\$ 23,877	\$ (1,326)	\$ 2,272	\$	\$ 24,823	\$ 2,123

<i>(In thousands)</i>	Balance as of December 31, 2008	Purchases/(sales), net	Total gains (losses) - realized and unrealized	Transfers in/(out) of Level 3	Balance as of September 30, 2009	Unrealized gains/(losses) included in earnings related to assets still held at reporting date
General partner investment in funds of funds	\$ 3,678	\$	\$ 231	\$	\$ 3,909	\$ 231
Limited partner investment in private equity fund	2,516	(72)	(49)		2,395	(49)
Limited partner investment in mortgage fund		(394)	27	2,000(3)	1,633	27
Investment in NYMT convertible preferred stock	11,687	656(1)	2,404		14,747	2,404
Warrants	307	74	(306)		75	(306)
Private equity securities		2,435(2)			2,435	
Total Level 3 assets	\$ 18,188	\$ 2,699	\$ 2,307	\$ 2,000	\$ 25,194	\$ 2,307

(1) Investment in NYMT convertible preferred stock held by JMPRT at December 31, 2008 of \$7.8 million was removed from the Company's assets in connection with the transfer of JMPRT assets and liabilities to HMOP effective January 2, 2009. The Company did not consolidate HMOP in its consolidated financial statements from January 2, 2009 through April 30, 2009. Effective May 1, 2009, the

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Company consolidated HMOP in its consolidated financial statements. As a result, the investment in NYMT convertible preferred stock held by HMOP was added to the Company's assets at the fair value of \$8.5 million as of May 1, 2009 and was included in the Company's Level 3 assets as of September 30, 2009.

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- (2) On July 31, 2009, the Company received 100% of the membership interest in LSC III, LLC (LSC) in full satisfaction of a \$2.4 million non-revolving credit note. LSC was an investment partnership and owned shares of common and preferred stock of two privately-held companies which had an aggregate fair value of \$2.4 million at July 31, 2009. The Company had a controlling financial interest in LSC and therefore consolidated LSC in its consolidated financial statements effective July 31, 2009. The two investments owned by LSC were recorded at fair value as of July 31, 2009 and were included in the Company's Level 3 assets as of September 30, 2009. LSC subsequently changed its name to Harvest Growth Capital LLC and launched on April 1, 2010 as a new private equity fund (see Note 2).
- (3) During the quarter ended September 30, 2009, the Company's limited partner investment in a mortgage fund was transferred from Level 2 to Level 3 within the fair value hierarchy due to reduced observability of the inputs used to value the fund's underlying investments. Purchases/sales represent the net amount of Level 3 assets that were either purchased or sold during the period. The amounts were recorded at fair value at the date of the transaction.

Total gains and losses represent the total gains and/or losses (realized and unrealized) recorded for the Level 3 assets and are reported in Principal Transactions in the accompanying Consolidated Statements of Operations.

Transfers in/out of Level 3 result from changes in the observability of fair value inputs used in determining fair values for different types of financial assets. There were no transfers in/out of Level 3 during the three and nine months ended September 30, 2010. During the three months ended September 30, 2009, the Company's limited partner investment in a mortgage fund was transferred from Level 2 to Level 3 within the fair value hierarchy due to reduced observability of the inputs used to value the fund's underlying investments. There were no other transfers in/out of Level 3 during the three and nine months ended September 30, 2009. There were no transfers in/out of Level 1 or Level 2 during the three and nine months ended September 30, 2010 and 2009.

The amount of unrealized gains and losses included in earnings attributable to the change in unrealized gains and losses relating to Level 3 assets still held at the end of the period are reported in Principal Transactions in the accompanying Consolidated Statements of Operations.

Included in other investments are investments in partnerships in which one of the Company's subsidiaries is the investment manager and general partner. The Company accounts for these investments using the equity method as described in Note 2. The Company's proportionate share of those investments is included in the tables above. In addition, other investments include warrants, and two investments in funds managed by third parties.

Other Investments not at Fair Value

On February 13, 2009, the Company entered into a business arrangement with China Merchants Securities Co. (HK), Ltd., a securities brokerage and investment banking firm, through a \$2.0 million investment in HuaMei Capital Company, Inc. (HuaMei) to expand the Company's investment banking capabilities in China. Through HuaMei, the Company intends to provide investment banking services to U.S. and Chinese companies seeking to execute cross-border transactions on both sides of the Pacific. HuaMei is a joint venture of China Merchants Securities; MVC Capital, Inc., a publicly traded business development company managed by The Tokarz Group Advisers LLC; and the HuaMei Capital founders. HuaMei has co-chief executive officers from China Merchant Securities Co. (HK), Ltd. and the Company. The Company has appointed its chairman and chief executive officer, Joseph Jolson, to serve on HuaMei's board of directors. The Company accounts for its investment in HuaMei under the equity method of accounting within other investments on the Consolidated Statements of Financial Condition. The carrying value of our investment in HuaMei was \$2.0 million at September 30, 2010.

On February 11, 2010, the Company made a \$1.5 million investment in Class D Preferred Units of Sanctuary Wealth Services LLC (Sanctuary). Sanctuary provides a turnkey platform that will allow independent wealth advisors to establish an independent advisory business without the high startup costs and regulatory hurdles. The Class D Preferred Units entitle the Company to receive a preferred dividend with units that are convertible into equity of Sanctuary at the option of the Company prior to the maturity date, which is three years from the investment date. The Company carries its investment in Sanctuary at cost within other investments on the Consolidated Statements of Financial Condition and evaluates the investment for impairment on a quarterly basis. The carrying value of the Company's investment in Sanctuary was \$1.5 million at September 30, 2010.

On June 11, 2010, the Company agreed to purchase the collateral management contracts for two collateralized loan obligations, or CLOs, from Princeton Advisory Group, Inc. for up to \$5.0 million. The transfers of the contracts were subject to the receipt of certain consents and other conditions. In connection with this purchase agreement, the Company made a deposit of \$1.0 million and \$0.7 million on June 11, 2010 and July 19, 2010, respectively. These deposits were recorded as other investments at cost on the Company's Consolidated Statements of

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Financial Condition. On September 8, 2010, the Company completed the purchase of one of the two management contracts for \$3.8 million, and the contract was transferred to JMPCA. The original deposit related to this contract of \$1.3 million and additional consideration of \$2.5 million were together reclassified to purchased management contract, which is included in other assets on the Consolidated Statement of Financial Condition. See Note 8 Purchased Management Contract for further details. The transfer of the other CLO management contract had not been completed as of September 30, 2010, and the Company carries the deposit related to this management contract as other investment at its current cost of \$0.4 million. The Company evaluated this investment for impairment at September 30, 2010 and determined that there was no impairment.

Derivative Financial Instruments

On May 29, 2010, the Company entered into an interest rate cap with City National Bank (the Lender) to effectively lock in or fix the interest rate on its revolving line of credit and term loan from July 1, 2010 through maturity. The interest rate cap will allow the Company to receive payments from the Lender in the event that LIBOR plus 2.25% exceeds 3.75%, limiting the interest rate on the outstanding balance of the line of credit and term loan to such rate. On July 1, 2010, the Company designated the interest rate cap as a cash flow hedge of the interest rate risk of a total of \$27.1 million of outstanding borrowings with the Lender.

The interest rate cap is recorded at fair value in other investments on the Consolidated Statements of Financial Condition, with unrealized gains and losses recorded as other comprehensive income. For the three and nine months ended September 30, 2010, the Company recorded \$107,089 of other comprehensive loss representing unrealized loss on the interest rate cap. In addition, during the three and nine months ended September 30, 2010, \$2,717 was reclassified from accumulated other comprehensive income into interest expense as amortization of the interest cap.

5. Loans Held for Investment

Loans held for investment at September 30, 2010 is comprised of principal investments in the form of one loan note and advances on one senior secured promissory note and one non-revolving credit note commitment. At December 31, 2009, loans held for investment was comprised of principal investments in the form of two loan notes and advances on one non-revolving credit note commitments.

The loan note outstanding at September 30, 2010 is a participation interest in a loan made by JMPRT to a client during 2007. The loan is collateralized by real estate related assets, and bears interest at the rate of 20.0% per annum, payable monthly in arrears. The principal of the loan was due and payable on December 1, 2007, but was extended until September 2008 for an additional fee at the borrower's option and in connection with a partial repayment. At September 30, 2008, the loan balance of \$0.8 million was in default and the Company recorded a loan loss provision of \$0.4 million in the third quarter of 2008, \$0.1 million in the fourth quarter of 2009 and \$0.3 million in the third quarter of 2010. Recovery of the loan is being sought through bankruptcy court proceedings; however, the Company believes it is unlikely that it will be able to recover the net realizable value of the loan.

In addition, in the third quarter of 2008, the Company made a \$4.2 million loan to a private commercial mortgage originator in the form of a note and warrants. The loan was placed on non-accrual status on April 1, 2009. Accordingly, the interest payments of \$0.2 million received subsequent to that date were applied to the principal balance, reducing the outstanding principal balance to \$4.0 million at December 31, 2009. The loan was recorded net of loan loss reserves of \$3.8 million and a deferred loan fee of \$0.2 million at December 31, 2009. On February 10, 2010, the loan note was converted into non-voting preferred equity of a newly formed entity which succeeded to the assets of the borrower. As of the conversion date, the Company determined the fair value of both the loan note and the non-voting preferred equity of the newly formed entity to be zero, and therefore, recognized no gain or loss on the conversion. During the quarters ended June 30, 2010 and September 30, 2010, the Company advanced \$0.3 million and \$0.1 million, respectively, on a \$0.8 million senior secured promissory note to the newly formed entity for the commencement of a new commercial loan origination program. The note bears interest at 15.0% per annum, matures in May 2011 and is secured by all loan origination fees generated by such commercial loan origination program.

The Company had also advanced as of December 31, 2008 an aggregate of \$3.8 million on two non-revolving credit note commitments with an original aggregate amount of \$7.0 million. In July 2009, one of the two non-revolving credit notes matured. As of the maturity date, the net carrying value of the credit note was \$2.4 million. As permitted by the terms of the credit agreement, at maturity, the borrower conveyed collateral to the Company in full satisfaction of the credit note. The collateral received was the membership interest in LSC III, LLC (see Note 2).

As of September 30, 2010 and December 31, 2009, the Company had a \$1.0 million and \$1.3 million advance, respectively, on a \$2.0 million non-revolving commitment. Of this non-revolving commitment, \$0.7 million expired in October 2009. The advance currently bears interest at the rate of 20.0% per annum and is due in June 2011. As of September 30, 2010 and December 31, 2009, the Company had no remaining credit

commitments.

At September 30, 2010 and December 31, 2009, \$0.8 million and \$4.8 million of the aggregate amount of loans held for investment were on non-accrual status, respectively.

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The following table presents components of loans held for investment, net, on the Consolidated Statements of Financial Condition at September 30, 2010 and December 31, 2009:

<i>(In thousands)</i>	September 30, 2010	December 31, 2009
Loans held for investment	\$ 2,331	\$ 6,057
Allowance for loan losses	(858)	(4,285)
Deferred loan fees		(180)
 Total loans held for investment, net	 \$ 1,473	 \$ 1,592

A summary of the activity in the allowance for loan losses for the three and nine months ended September 30, 2010 and 2009 was as follows:

<i>(In thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Balance at beginning of period	\$ (528)	\$ (4,340)	\$ (4,285)	\$ (2,896)
Provision for loan losses	(330)	105	(330)	(1,339)
Loans charged off, net of recoveries		50	3,757	50
 Balance at end of period	 \$ (858)	 \$ (4,185)	 \$ (858)	 \$ (4,185)

The Company determined the fair value of loans held for investment to be \$1.5 million and \$1.7 million as of September 30, 2010 and December 31, 2009, respectively, using anticipated cash flows, discounted at an appropriate market credit adjusted interest rate.

6. Loans Collateralizing Asset-backed Securities Issued

Loans collateralizing asset-backed securities issued are commercial loans securitized and owned by Cratos CLO. The loans consist of those loans within the CLO securitization structure at the acquisition date of Cratos and loans purchased by the CLO subsequent to the Cratos acquisition date. The following table presents the components of loans collateralizing asset-backed securities issued at September 30, 2010:

<i>(In thousands)</i>	September 30, 2010	December 31, 2009
Loans collateralizing asset-backed securities	\$ 440,789	\$ 461,460
Allowance for loan losses	(1,630)	(1,995)
Liquidity discount	(51,603)	(91,544)
Credit discount	(8,558)	(35,105)
Deferred loan fees, net	(5,781)	(4,849)
 Total loans collateralizing asset-backed securities, net	 \$ 373,217	 \$ 327,967

A loan is considered to be impaired when, based on current information, it is probable that the Company will be unable to collect all amounts due in accordance with the contractual terms of the original loan agreement, including scheduled principal and interest payments. There were \$14.0 million of impaired loans as of September 30, 2010, with allocated specific reserves of \$0.6 million and credit discount of \$8.6 million. There were \$74.4 million of impaired loans as of December 31, 2009, with allocated specific reserves of \$1.6 million and credit discount of \$35.1 million. In addition, the Company evaluates pools of homogeneous loans based on portfolio classification and risk assessment to determine the inherent loss in these portfolios. Based on such evaluation, the Company recorded pooled reserves of \$0.2 million during the three months ended September 30, 2010 on non-impaired loans.

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A summary of the activity in the allowance for loan losses for the three and nine months ended September 30, 2010 is as follows:

<i>(In thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Balance at beginning of period	\$ (2,449)	\$ (2,538)	\$ (1,994)	\$
Provision for loan losses:				
Specific reserve		(1,388)		(3,807)
Pooled reserve	(179)	(101)	(634)	(220)
Reversal due to sale, payoff or restructure of loans	998	1,000	998	1,000
Balance at end of period	\$ (1,630)	\$ (3,027)	\$ (1,630)	\$ (3,027)

Loans recorded upon the acquisition of Cratos at fair value reflect a liquidity discount and a credit discount. In addition, most loans purchased subsequent to the acquisition were purchased at discount to their principal value, reflecting deferred loan fees. The tables below summarize the activity in the loan principal, allowance for loan losses, liquidity discount, credit discount and deferred fees for the impaired loans and non-impaired loans for the three months ended September 30, 2010:

Impaired loans:

<i>(In thousands)</i>	Three Months Ended September 30, 2010				Carrying Value, Net
	Principal	Allowance for Loan Losses	Liquidity Discount	Credit Discount	
Balance at beginning of period	\$ 24,432	\$ (1,581)	\$ (2,982)	\$ (17,647)	\$ 2,222
Repayments	(314)				(314)
Accretion of discount			271		271
Provision for loan losses					
Sales and payoff	(9,089)			9,089	
Write-off / restructuring	(998)	998			
Transfers to/from non-impaired loans, net					
Balance at end of period	\$ 14,031	\$ (583)	\$ (2,711)	\$ (8,558)	\$ 2,179

Non-impaired loans:

<i>(In thousands)</i>	Three Months Ended September 30, 2010				Carrying Value, Net
	Principal	Allowance for Loan Losses	Liquidity Discount	Deferred Loan Fees	
Balance at beginning of period	\$ 422,927	\$ (868)	\$ (61,428)	\$ (5,067)	\$ 355,564
Purchases / funding	60,825			(1,279)	59,546
Repayments	(12,057)				(12,057)
Accretion of discount			5,411	383	5,794
Provision for loan losses		(179)			(179)
Sales and payoff	(44,937)		7,125	182	(37,630)
Transfers to/from impaired loans, net					
Balance at end of period	\$ 426,758	\$ (1,047)	\$ (48,892)	\$ (5,781)	\$ 371,038

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The tables below summarize the activity in the loan principal, liquidity discount, allowance for loan losses, credit discount and deferred fees for the impaired loans and non-impaired loans for the nine months ended September 30, 2010:

Impaired loans:

<i>(In thousands)</i>	Nine Months Ended September 30, 2010				
	Principal	Allowance for Loan Losses	Liquidity Discount	Credit Discount	Carrying Value, Net
Balance at beginning of period	\$ 74,369	\$ (1,581)	\$ (18,411)	\$ (35,105)	\$ 19,272
Repayments	(3,202)			174	(3,028)
Accretion of discount			682		682
Provision for loan losses					
Sales and payoff	(29,579)		7,314	14,509	(7,756)
Write-off / restructuring	(8,954)	998		7,956	
Transfers to/from non-impaired loans, net	(18,603)		7,704	3,908	(6,991)
Balance at end of period	\$ 14,031	\$ (583)	\$ (2,711)	\$ (8,558)	\$ 2,179

Non-impaired loans:

<i>(In thousands)</i>	Nine Months Ended September 30, 2010				
	Principal	Allowance for Loan Losses	Liquidity Discount	Deferred Loan Fees	Carrying Value, Net
Balance at beginning of period	\$ 387,090	\$ (413)	\$ (73,133)	\$ (4,849)	\$ 308,695
Purchases / funding	227,561			(3,436)	224,125
Repayments	(56,400)				(56,400)
Accretion of discount			18,295	1,128	19,423
Provision for loan losses		(634)			(634)
Sales and payoff	(151,157)		18,619	1,376	(131,162)
Transfers to/from impaired loans, net	19,664		(12,673)		6,991
Balance at end of period	\$ 426,758	\$ (1,047)	\$ (48,892)	\$ (5,781)	\$ 371,038

The tables below summarize the activity in the loan principal, allowance for loan losses, liquidity discount, credit discount and deferred fees for the impaired loans and non-impaired loans for the three months ended September 30, 2009:

Impaired loans:

<i>(In thousands)</i>	Three Months Ended September 30, 2009				
	Principal	Allowance for Loan Losses	Liquidity Discount	Credit Discount	Carrying Value, Net
Balance at beginning of period	\$ 84,340	\$ (2,419)	\$ (17,149)	\$ (45,724)	\$ 19,048
Repayments	(2,712)			89	(2,623)
Accretion of discount			991		991
Provision for loan losses		(1,388)			(1,388)

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Sales and payoff	(11,348)	1,000	2,992	1,000	(6,356)
Transfers/release of credit reserves	23,308		(6,877)		16,431
Balance at end of period	\$ 93,588	\$ (2,807)	\$ (20,043)	\$ (44,635)	\$ 26,103

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<i>(In thousands)</i>	Three Months Ended September 30, 2009				
	Principal	Allowance for Loan Losses	Liquidity Discount	Deferred Loan Fees	Carrying Value, Net
Balance at beginning of period	\$ 390,189	\$ (119)	\$ (98,727)	\$ (2,287)	\$ 289,056
Purchases / funding	49,118			(2,415)	46,703
Repayments	(20,003)				(20,003)
Accretion of discount			6,001	305	6,306
Provision for loan losses		(101)			(101)
Sales and payoff	(19,262)		4,622	246	(14,394)
Transfers/release of credit reserves	(23,308)		6,877		(16,431)
Balance at end of period	\$ 376,734	\$ (220)	\$ (81,227)	\$ (4,151)	\$ 291,136

The tables below summarize the activity in the loan principal, allowance for loan losses, liquidity discount, credit discount and deferred fees for the impaired loans and non-impaired loans for the nine months ended September 30, 2009:

Impaired loans:

<i>(In thousands)</i>	Nine Months Ended September 30, 2009				
	Principal	Allowance for Loan Losses	Liquidity Discount	Credit Discount	Carrying Value, Net
Balance at beginning of period	\$ 96,466	\$	\$ (18,599)	\$ (51,493)	\$ 26,374
Cratos acquisitions	96,466		(18,599)	(51,493)	26,374
Repayments	(4,398)			89	(4,309)
Accretion of discount			1,951		1,951
Provision for loan losses		(3,807)			(3,807)
Sales and payoff	(21,788)	1,000	3,482	6,769	(10,537)
Transfers/release of credit reserves	23,308		(6,877)		16,431
Balance at end of period	\$ 93,588	\$ (2,807)	\$ (20,043)	\$ (44,635)	\$ 26,103

Non-impaired loans:

<i>(In thousands)</i>	Nine Months Ended September 30, 2009				
	Principal	Allowance for Loan Losses	Liquidity Discount	Deferred Loan Fees	Carrying Value, Net
Balance at beginning of period	\$ 363,702	\$	\$ (109,576)	\$	\$ 254,126
Cratos acquisitions	363,702		(109,576)		254,126
Purchases / funding	101,775			(4,881)	96,894
Repayments	(31,191)				(31,191)
Accretion of discount			11,457	484	11,941
Provision for loan losses		(220)			(220)
Sales and payoff	(34,244)		10,015	246	(23,983)

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Transfers/release of credit reserves	(23,308)		6,877		(16,431)
Balance at end of period	\$ 376,734	\$ (220)	\$ (81,227)	\$ (4,151)	\$ 291,136

The Company determined the fair value of loans collateralizing asset-backed securities to be \$415.2 million and \$374.5 million as of September 30, 2010 and December 31, 2009, respectively, using anticipated cash flows, discounted at an appropriate market credit adjusted interest rate.

At September 30, 2010 and December 31, 2009, \$14.0 million and \$74.4 million of the aggregate principal amount of loans collateralizing asset-backed securities were on non-accrual status. The Company did not recognize any interest income, other than the accretion of liquidity discounts, for seven and eleven impaired loans with a weighted average loan balance of \$29.8 million and \$58.4 million that were on non-accrual status during the three and nine months ended September 30, 2010, respectively.

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At September 30, 2010 and December 31, 2009, fixed assets consisted of the following:

<i>(In thousands)</i>	September 30, 2010	December 31, 2009
Furniture and fixtures	\$ 1,634	\$ 1,620
Computer and office equipment	4,367	3,771
Leasehold improvements	2,439	2,374
Software	590	540
Less: accumulated depreciation	(7,456)	(6,960)
 Total fixed assets, net	 \$ 1,574	 \$ 1,345

Depreciation expense was \$0.2 million and \$0.5 million for the three and nine months ended September 30, 2010, respectively. Depreciation expense was \$0.2 million and \$0.6 million for the three and nine months ended September 30, 2009, respectively.

8. Purchased Management Contract

On June 11, 2010, the Company agreed to purchase the collateral management contracts for two collateralized loan obligations, or CLOs, from Princeton Advisory Group, Inc. for up to \$5.0 million. The transfers of the contracts were subject to the receipt of certain consents and other conditions. On September 8, 2010, the Company completed the purchase of one of the two management contracts for \$3.8 million, and the contract was transferred to JMPCA. However, since a single investor had previously acquired control of the right to transfer the management contract without cause at any time with 90 days' notice, the Company recorded an impairment charge of \$2.8 million for the quarter ended September 30, 2010. The Company has since restructured the transaction to provide the Company with indemnity from the seller in the amount of \$2.6 million, of which \$1.6 million is uncertain to be realized and \$1.0 million in cash. Therefore, as of September 30, 2010, the Company determined the carrying value of the purchased management contract to be \$1.0 million. The Company amortizes the purchased management contract over its estimated life of 2.5 years corresponding to the indemnity period through February 2013 and tests it for impairment whenever events or changes in circumstances suggest that the asset's carrying value may not be fully recoverable. An impairment loss, calculated as the difference between the estimated fair value and the carrying value of the asset, is recognized if the sum of the estimated undiscounted cash flows relating to the asset is less than the corresponding carrying value.

The Company has not been given notice that the management contract will be transferred to another manager and, as long as JMPCA remains the manager, it will continue to earn management fees from the CLO.

9. Note Payable

Note payable consists of the revolving and term loans related to the Company's credit facility with City National Bank (the "Lender") entered into on August 3, 2006. During the three months ended September 30, 2010 the Company drew down the remaining balance of \$13.9 million and had a revolving loan of \$21.0 million at September 30, 2010 and \$2.1 million at December 31, 2009. The Company's outstanding term loan was \$5.6 million at September 30, 2010 and \$6.9 million at December 31, 2009.

On December 31, 2008, the Company entered into Amendment Number Three to Credit Agreement (the "Third Amendment"), which amends certain provisions of the Credit Agreement, dated as of August 3, 2006, by and between the Company and the Lender, as amended by Amendment Number One to Credit Agreement, dated as of December 17, 2007 and as further amended by Amendment Number Two to Credit Agreement, dated as of March 27, 2008, and Amendment Number Four to Credit Agreement and Waiver dated as of January 28, 2010 (collectively, the "Credit Agreement").

The Third Amendment converted the Company's outstanding revolving loans of \$8.7 million into a single term loan as of December 31, 2008. The term loan will be repaid in equal quarterly payments of \$0.4 million which commenced on March 31, 2009 and continues through December 31, 2013 and bears interest at the prime rate or LIBOR plus 2.25%. The Third Amendment also provided that of the original \$30.0 million revolving line of credit, \$21.0 million remained available under the revolving portion of the Credit Agreement and the annual interest

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rate provisions of the Credit Agreement were increased from the prime rate minus 1.25% to the prime rate and from LIBOR plus 1.25% to LIBOR plus 2.25%. The Lender will continue to provide revolving loans of up to \$21.0 million through December 31, 2010, on which date the then existing revolving loans will convert into term loans.

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The Company had no undrawn amount under the revolving line of credit with the Lender at September 30, 2010 and an undrawn amount of \$18.9 million at December 31, 2009. Each draw bears interest at the prime rate or LIBOR plus 2.25%. The following table shows the repayment schedules for the principal portion of the term loan at September 30, 2010:

<i>(In thousands)</i>	September 30, 2010
2010	\$ 434
2011	1,736
2012	1,736
2013	1,737
2014	
Thereafter	
	\$ 5,643

The Credit Agreement contains financial and other covenants, including, but not limited to, limitations on debt, liens and investments, as well as the maintenance of certain financial covenants. A violation of any one of these covenants could result in a default under the facility, which would permit the bank to terminate our note and require the immediate repayment of any outstanding principal and interest. The Third Amendment modified the financial covenants in the Credit Agreement to remove both the minimum requirement of Net Income (as defined in the Credit Agreement) and the minimum requirement of EBITDA (as defined in the Credit Agreement). The Third Amendment also removed the Fixed Charge Coverage Ratio (as defined in the Credit Agreement) and added a new financial covenant regarding the Company's liquidity. At September 30, 2010, the Company was in compliance with the loan covenants. The term loan is collateralized by a pledge of the Company's assets, including its interests in each of JMP Securities and HCS.

On May 29, 2010 the Company entered into an interest rate cap with the Lender to effectively lock in or fix the interest rate on its revolving line of credit and term loan from July 1, 2010 through maturity. The interest rate cap will allow the Company to receive payments from the counterparty in the event that LIBOR plus 2.25% exceeds 3.75%, limiting the interest rate on the outstanding balance of the line of credit and term loan to such rate. The cap had an initial notional principal amount of \$27.1 million, indexed to LIBOR and amortizes in accordance with the amortization of the revolving line of credit and term loan. The notional principal amount of the cap was \$26.6 million at September 30, 2010. See Note 4 for additional information on the interest rate cap.

10. Asset-backed Securities Issued

On May 17, 2007, Cratos CLO completed a \$500.0 million aggregate principal amount of notes (the Notes) on-balance sheet debt securitization and obtained \$455.0 million of third-party financing. The Notes will be repaid from the cash flows generated by the loan portfolio owned by the CLO. The Notes were issued in seven separate classes as set forth in the table below. The Company owns approximately 94.0% of the unsecured subordinated notes and \$13.8 million of Class C, D and E notes. These unsecured subordinated notes and the Class C, D and E notes owned by the Company are eliminated upon consolidation of JMP Credit, and therefore, are not reflected on the Company's consolidated statement of financial condition at September 30, 2010 and December 31, 2009.

<i>(In millions)</i>	Notes Originally Issued	Outstanding Principal Balance	As of September 30, 2010			Interest Rate Spread to LIBOR	Ratings (Moody's / S&P) (1)
			Liquidity Discount	Net Outstanding Balance			
Class A Senior Secured Floating Rate Revolving Notes due 2021	\$ 326.0	\$ 315.8	(\$ 30.8)	\$ 285.0	0.26% 0.29%	Aaa/AAA	
Class B Senior Secured Floating Rate Notes due 2021	30.0	30.0	(7.7)	22.3	0.50%	Aa2/AA	
Class C Senior Secured Deferrable Floating Rate Notes due 2021	35.0	35.0	(18.4)	16.6	1.10%	Baa1/A	
Class D Secured Deferrable Floating Rate Notes due 2021	34.0	34.0	(18.2)	15.8	2.40%	Ba1/BBB	

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Class E Secured Deferrable Floating Rate Notes due 2021	30.0	30.0	(17.4)	12.6	5.00%	B3/CCC-
Total secured notes sold to investors	\$ 455.0	\$ 444.8	(\$ 92.5)	\$ 352.3		
Unsecured subordinated notes due 2021	45.0	45.0	(39.9)	5.1		
Total notes for the CLO I offering	\$ 500.0	\$ 489.8	(\$ 132.4)	\$ 357.4		
Consolidation elimination	N/A	(58.8)	45.6	(13.2)		
Total asset-backed securities issued	N/A	\$ 431.0	(\$ 86.8)	\$ 344.2		

(1) These ratings are unaudited and were the current ratings as of September 30, 2010 and are subject to change from time to time. The secured notes and subordinated notes are limited recourse obligations payable solely from cash flows of the CLO loan portfolio and related collection and payment accounts pledged as security. Payment on the Class A-1 notes rank equal, or pari passu, in right of payment with payments on the Class A-2 notes and payment on the Class A-1 and Class A-2 notes rank senior in right of payment to the other secured notes and the subordinated notes. Payment on the Class B, Class C, Class D and Class E notes generally rank subordinate in right of payment to any other class of notes which has an earlier alphabetical designation. The subordinated notes are subordinated in right of payment to all other classes of notes and will not accrue interest. Interest on the secured notes is payable quarterly at a per annum rate equal to LIBOR plus the applicable spread set forth in the table above. Payment of interest on the Class C, Class D and Class E notes is payable only to the extent proceeds are available therefore under the applicable payment priority provisions. As of September 30, 2010, all interest on the secured notes

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was current. To the extent proceeds are not so available, interest on the Class C, Class D and Class E notes will be deferred. The CLO is also required to pay a commitment fee of 0.18% on the unused portion of the funding commitments of the Class A-1 notes. As of September 30, 2010, all of the Class A-1 notes were drawn. The secured notes are secured by the CLO loan portfolio and the funds on deposit in various related collection and payment accounts. The terms of the debt securitization subject the loans included in the CLO loan portfolio to a number of collateral quality, portfolio profile, interest coverage and overcollateralization tests. Total interest expense related to the asset-backed securities issued for the three and nine months ended September 30, 2010 was \$8.3 million and \$24.5 million, respectively, which comprised cash coupon of \$1.3 million and \$3.5 million, respectively, and liquidity discount amortization of \$7.0 million and \$21.0 million, respectively. Total interest expense for the three and nine months ended September 30, 2009 was \$8.3 million and 17.1 million, respectively, which comprised cash coupon of \$1.5 million and \$3.4 million, respectively, and liquidity discount amortization of \$6.8 million and \$13.7 million, respectively. As of September 30, 2010 and December 31, 2009, accrued interest payable on the Notes was \$0.6 million and \$0.5 million, respectively.

The Notes recorded upon the acquisition of Cratos at fair value reflect a liquidity discount. The activity in the note principal and liquidity discount for the three and nine months ended September 30, 2010 comprised the following:

<i>(In thousands)</i>	Three Months Ended September 30, 2010			Nine Months Ended September 30, 2010		
	Principal	Liquidity Discount	Net	Principal	Liquidity Discount	Net
Balance at beginning of period	\$ 431,003	\$ (93,865)	\$ 337,138	\$ 434,478	\$ (107,846)	\$ 326,632
Repayments				(3,475)		(3,475)
Sales						
Amortization of discount		7,029	7,029		21,010	21,010
Balance at end of period	\$ 431,003	\$ (86,836)	\$ 344,167	\$ 431,003	\$ (86,836)	\$ 344,167

The activity in the note principal and liquidity discount for the three and nine months ended September 30, 2009 comprised the following:

<i>(In thousands)</i>	Three Months Ended September 30, 2009			Nine Months Ended September 30, 2009		
	Principal	Liquidity Discount	Net	Principal	Liquidity Discount	Net
Balance at beginning of period	\$ 445,240	\$ (121,015)	\$ 324,225	\$	\$	\$
Cratos acquisitions (April 7, 2009)				440,950	(124,437)	316,513
Repayments	(3,668)		(3,668)	(3,668)		(3,668)
Post-acquisition purchases (1)	(4,000)	(593)	(4,593)	(4,760)		(4,760)
Sales				5,050	(4,054)	996
Amortization of discount		6,823	6,823		13,706	13,706
Balance at end of period	\$ 437,572	\$ (114,785)	\$ 322,787	\$ 437,572	\$ (114,785)	\$ 322,787

(1) In May and July 2009, the Company repurchased in the open market \$0.8 million and \$4.0 million, respectively, of face value of the ABS issued at a discount resulting in a gain of \$0.7 million and \$3.5 million, respectively.

The Company determined the fair value of asset-backed securities issued to be \$357.2 million and \$361.1 million as of September 30, 2010 and December 31, 2009, respectively.

Table of Contents**11. Stockholders' Equity***Stock Repurchase Program*

The Company's board of directors authorized in August and November 2007 a 1.5 million share repurchase program, which was fully executed as of January 18, 2008. On March 10, 2008 and March 3, 2009, the Company's board of directors authorized the repurchase of an additional 2.0 million shares during the subsequent eighteen months and the repurchase of an additional 0.5 million shares during the subsequent twelve months, respectively. On May 4, 2010, with 0.6 million shares remaining under prior authorizations the Company's board of directors authorized the repurchase of an additional 1.0 million shares during the subsequent eighteen months. During the three months ended September 30, 2010 and 2009, the Company repurchased 168,739 and 324 shares, respectively, of the Company's common stock at an average price of \$6.48 per share and \$6.40 per share, respectively, for an aggregate purchase price of \$1.1 million and \$2,074, respectively. Of the total shares repurchased during the three months ended September 30, 2010 and 2009, 953 shares and 324 shares, respectively, were deemed to have been repurchased in connection with employee stock plans, whereby the Company's shares were issued on a net basis to employees for the payment of applicable statutory withholding taxes and therefore such withheld shares are deemed to be purchased by the Company.

The timing and amount of any future open market stock repurchases will be determined by JMP management based on its evaluation of market conditions, the relative attractiveness of other capital deployment activities, regulatory considerations and other factors. Any open market stock repurchase activities will be conducted in compliance with the safe harbor provisions of Rule 10b-18 of the Securities Exchange Act of 1934, as amended, or in privately negotiated transactions. Repurchases of common stock may also be made under an effective Rule 10b5-1 plan which permits common stock to be repurchased when the Company may otherwise be prohibited from doing so under insider trading laws. This repurchase program may be suspended or discontinued at any time.

12. Stock-Based Compensation

On March 26, 2007, the board of directors adopted the JMP Group Inc. 2007 Equity Incentive Plan (JMP Group 2007 Plan), which was approved by the stockholders on April 12, 2007. JMP Group Inc. authorized the issuance of 4,000,000 shares of its common stock under this Plan. This amount is increased by any shares JMP Group Inc. purchases on the open market, or through any share repurchase or share exchange program, as well as any shares that may be returned to the JMP Group 2007 Plan or the JMP Group LLC 2004 Equity Incentive Plan (JMP Group 2004 Plan) as a result of forfeiture, termination or expiration of awards; not to exceed a maximum aggregate number of shares of 2,960,000 shares under the JMP Group 2004 Plan. The Company will issue shares upon exercises or vesting from authorized but unissued shares or from treasury stock.

Stock Options

The following table summarizes the stock option activity for the nine months ended September 30, 2010:

	Nine Months Ended September 30, 2010	
	Shares Subject to Option	Weighted Average Exercise Price
Balance, beginning of year	1,938,315	\$ 11.28
Granted		
Exercised		
Forfeited		
Expired	(87,750)	11.71
Balance, end of period	1,850,565	\$ 11.26
Options exercisable at end of period	1,850,565	\$ 11.26

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		As of September 30, 2010							
		Options Outstanding			Options Vested and Exercisable				
		Weighted		Weighted	Weighted				
		Average		Average	Average				
		Remaining	Contractual	Exercise	Aggregate	Remaining	Weighted	Aggregate	
		Contractual	Life in	Price	Intrinsic	Contractual	Average	Intrinsic	
		Number	Years		Value	Number	Life in	Value	
		Outstanding				Exercisable	Years		
Range of Exercise Prices									
\$10.00	\$12.50	1,850,565	4.20	\$ 11.26	\$	1,850,565	4.20	\$ 11.26	\$

The Company recognizes stock-based compensation expense for stock options over the graded vesting period of the options using the accelerated attribution method. The Company recognized compensation expense related to stock options of \$277 and \$4,002 for the three months ended September 30, 2010 and 2009, respectively. The Company recognized compensation expense related to stock options of \$3,231 and \$14,852 for the nine months ended September 30, 2010 and 2009, respectively.

As of September 30, 2010, there was no unrecognized compensation expense related to stock options.

Restricted Stock Units

Under the JMP Group 2007 Equity Award Plan, the Company has granted restricted stock units (RSUs) to employees and non-employee directors at no cost to the recipient. An RSU entitles the recipient to receive a share of common stock after the applicable restrictions lapse. These awards are generally subject to vesting schedules and continued employment with the Company. Some of these awards are also subject to post vesting lockup restrictions. In the event of a change in control or corporate transactions, or if the vesting of all or certain of the RSUs are otherwise accelerated, the RSUs will vest immediately prior to the effective date of such an event.

On February 4, 2010, the Company granted 905,628 RSUs to certain employees for long term incentive purposes. These units have Company performance-based vesting conditions and will vest when the Company performance target set for such RSUs is met. The maximum aggregate fair value of this grant, assuming the highest level of performance conditions is probable, was \$7.2 million based on the market value of the underlying stock on grant date.

On February 16, 2010, as a part of the 2009 annual compensation program, the Company granted 131,341 restricted shares to certain employees. These shares vested immediately with a two-year restricted period during which the holders are subject to non-competition, non-solicitation and certain other covenants. Fifty-percent of such holders' shares will be released from restriction on each of December 31, 2010 and 2011.

During the quarter ended June 30, 2010, the Company granted 256,000 restricted shares in connection with its hiring initiatives. These shares vested immediately with a three-year restricted period subject to non-competition, non-solicitation and certain other covenants. One-third of these restricted shares will be released on each of the first, second and third anniversary of employment commencement.

On August 3, 2010, the Company granted 56,818 RSUs to the Company's independent directors. One-half of these units vested immediately and the remaining units will vest on the first anniversary.

During the quarter ended September 30, 2010, the Company granted 52,273 RSUs shares in connection with its hiring initiatives. These RSUs will vest on the second or third anniversary of employment commencement or upon meeting the individual performance target.

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The following table summarizes the RSU activity for the nine months ended September 30, 2010:

	Nine Months Ended September 30, 2010	
	Restricted Stock Units	Weighted Average Grant Date Fair Value
Balance, beginning of year	1,392,551	\$ 9.59
Granted	1,007,012	7.83
Vested	(636,613)	9.83
Forfeited	(111,414)	8.25
Balance, end of period	1,651,536	\$ 8.51

The aggregate fair value of RSUs vested during the three and nine months ended September 30, 2010 was \$0.3 million and \$4.6 million, respectively. For the three and nine months ended September 30, 2010, the income tax benefits realized from the vested RSUs were \$0.1 million and \$2.6 million, respectively.

The Company recognizes compensation expense over a graded vesting period using the accelerated attribution method. For the three months ended September 30, 2010 and 2009, the Company recorded compensation expense of \$0.3 million and \$0.7 million, respectively, related to RSUs awarded in connection with the initial public offering. For the nine months ended September 30, 2010 and 2009, the Company recorded compensation expense of \$2.2 million and \$2.5 million, respectively, related to RSUs awarded in connection with the initial public offering. In addition, for the three months ended September 30, 2010 and 2009, the Company recorded compensation expense of \$0.4 million and \$0.5 million, respectively, for RSUs granted after the initial public offering. For the nine months ended September 30, 2010 and 2009, the Company recorded compensation expense of \$0.8 million and \$1.4 million, respectively, for RSUs granted after the initial public offering. For the three months ended September 30, 2010 and 2009, the Company recognized income tax benefits of \$0.3 million and \$0.5 million, respectively, related to the compensation expense recognized for RSUs. For the nine months ended September 30, 2010 and 2009, the Company recognized income tax benefits of \$1.2 million and \$1.6 million, respectively, related to the compensation expense recognized for RSUs. As of September 30, 2010, there was \$1.5 million of unrecognized compensation expense related to RSUs expected to be recognized over a weighted average period of 1.78 years.

13. Net Income (Loss) per Share of Common Stock

Basic net income (loss) per share for the Company is calculated by dividing net income (loss) by the weighted average number of common shares outstanding for the reporting period. Diluted net income (loss) per share is calculated by adjusting the weighted average number of outstanding shares to reflect the potential dilutive impact as if all potentially dilutive stock options or RSUs were exercised or converted under the treasury stock method. However, for periods that we have a net loss the effect of outstanding stock options or RSUs is anti-dilutive and, accordingly, is excluded from the calculation of diluted loss per share.

The computations of basic and diluted net income per share for the three and nine months ended September 30, 2010 and 2009 are shown in the tables below:

<i>(In thousands, except per share data)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Numerator:				
Net income	\$ 1,431	\$ 2,969	\$ 5,334	\$ 7,289
Denominator:				
Basic weighted average shares outstanding	21,583	20,755	21,616	20,633

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Effect of potential dilutive securities:				
Restricted stock units	531	1,260	627	1,007
Diluted weighted average shares outstanding				
	22,114	22,015	22,243	21,640
Net income per share				
Basic	\$ 0.07	\$ 0.14	\$ 0.25	\$ 0.35
Diluted	\$ 0.06	\$ 0.13	\$ 0.24	\$ 0.34

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Stock options to purchase 1,850,565 and 1,872,833 shares of common stock for the three and nine months ended September 30, 2010, respectively, were anti-dilutive and, therefore, were not included in the computation of diluted weighted-average common shares outstanding. Stock options to purchase 1,981,661 and 2,029,712 shares of common stock for the three and nine months ended September 30, 2009, respectively, were anti-dilutive and, therefore, were not included in the computation of diluted weighted-average common units or diluted weighted-average common shares outstanding. Restricted stock units for 25,867 and 8,717 shares of common stock for the three and nine months ended September 30, 2010, respectively, were anti-dilutive and, therefore, were not included in the computation of diluted weighted-average common shares outstanding. Restricted stock units for zero and 16,811 shares of common stock were anti-dilutive for the three and nine months ended September 30, 2009.

14. Employee Benefits

All salaried employees of the Company are eligible to participate in the JMP Group 401(k) Plan after three months of employment. Participants may contribute up to the limits set by the United States Internal Revenue Service. There were no contributions by the Company during the three and nine months ended September 30, 2010 and 2009.

15. Income Taxes

The Company is subject to U.S. federal and state income taxes. For the three and nine months ended September 30, 2010, the Company recorded a total tax expense of \$1.9 million and \$5.5 million, respectively. For the three and nine months ended September 30, 2009, the Company recorded a total tax expense of \$2.9 million and \$6.5 million, respectively.

The components of the Company's income tax expense for the three and nine months ended September 30, 2010 and 2009 are as follows:

<i>(In thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Federal	\$ (566)	\$ (543)	\$ (806)	\$ (211)
State	1,211	(123)	1,171	(11)
Total current income tax expense (benefit)	645	(666)	365	(222)
Federal	1,156	2,768	4,132	5,265
State	142	777	967	1,448
Total deferred income tax expense	1,298	3,545	5,099	6,713
Total income tax expense	\$ 1,943	\$ 2,879	\$ 5,464	\$ 6,491

A reconciliation of the statutory U.S. federal income tax rate to the Company's effective tax rate for the three months ended September 30, 2010 and 2009 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Tax at federal statutory tax rate	35.00%	35.00%	35.00%	35.00%
State income tax, net of federal tax benefit	5.75%	5.75%	5.75%	5.75%
Adjustment for permanent items	0.88%	0.03%	0.68%	-2.91%
Rate before one-time events	41.63%	40.78%	41.43%	37.84%
Deferred tax asset written off related to options and RSUs		0.14%		4.62%
Adjustment for prior year taxes	0.22%	2.54%	0.08%	-0.53%
Additional state income tax expense for JMP Credit	3.44%		1.20%	0.00%

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California state enterprise zone tax credit	-3.70%		-1.29%	
Post-acquisition adjustment to deferred tax liability of JMP				
Credit		0.43%		1.32%
New York state tax amendment	0.86%		0.30%	
Effective tax rate	42.45%	43.89%	41.72%	43.25%

The Company determined that a valuation allowance against deferred tax assets was not necessary as of September 30, 2010 and December 31, 2009 based on the assessment of future ordinary income and capital gains and that the deferred tax assets will, more-likely-than-not, be realized.

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The Company adopted the accounting principles related to uncertainty in income taxes on May 16, 2007, the date the Company became subject to federal and state income taxes. The Company has analyzed the filing positions in its federal and state income tax returns for all open tax years, which are 2007 through 2009 for federal income tax purposes and 2006 through 2009 for state income tax purposes. The Company does not anticipate any tax adjustments that will result in a material adverse effect on the Company's financial condition, results of operations, or cash flow. Therefore, the Company recorded no liability for uncertain income tax positions at September 30, 2010.

The Company's policy for recording interest and penalties associated with the tax audits or unrecognized tax benefits, if any, is to record such items as a component of income before taxes. Penalties, if incurred, would be recorded in administration and interest paid or received would be recorded in interest and dividend expense in the Consolidated Statements of Operations.

16. Commitments and Contingencies

The Company leases office space in California, Illinois, Georgia, Massachusetts and New York under various operating leases. Rental expense for the three months ended September 30, 2010 and 2009 was \$0.7 million and, \$0.6 million, respectively. Rental expense for the nine months ended September 30, 2010 and 2009 was \$2.0 million and \$1.8 million, respectively.

The California, Chicago and New York leases included a period of free rent at the start of the lease for seven months, nine months and three months, respectively. Rent expense is recognized over the entire lease period uniformly net of the free rent savings. The aggregate minimum future commitments of these leases are:

<i>(In thousands)</i>	September 30, 2010
2010	\$ 793
2011	2,708
2012	218
2013	54
2014	55
Thereafter	5
	\$ 3,833

In connection with its underwriting activities, JMP Securities enters into firm commitments for the purchase of securities in return for a fee. These commitments require JMP Securities to purchase securities at a specified price. Securities underwriting exposes JMP Securities to market and credit risk, primarily in the event that, for any reason, securities purchased by JMP Securities cannot be distributed at anticipated price levels. At September 30, 2010 and December 31, 2009, JMP Securities had no open underwriting commitments.

The marketable securities owned and the restricted cash as well as the cash held by the clearing broker, may be used to maintain margin requirements. At September 30, 2010 and December 31, 2009, the Company had \$0.3 million of cash on deposit with JMP Securities' clearing broker. Furthermore, the marketable securities owned may be hypothecated or borrowed by the clearing broker.

Unfunded commitments are agreements to lend to a borrower, provided that all conditions have been met. As of September 30, 2010 and December 31, 2009, the Company had unfunded commitments of \$0.1 million and \$3.4 million, respectively, in the Corporate Credit segment. These commitments relate to the CLO and do not extend to JMP Group Inc.

17. Regulatory Requirements

JMP Securities is subject to the SEC's Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital, as defined, and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. JMP Securities had net capital of \$24.9 million and \$45.3 million, which were \$23.9 million and \$43.7 million in excess of the required net capital of \$1.0 million and \$1.6 million at September 30, 2010 and December 31, 2009, respectively. JMP Securities' ratio of aggregate indebtedness to net capital was 0.47 to 1 and 0.26 to 1 at September 30, 2010 and December 31, 2009, respectively.

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Since all customer transactions are cleared through another broker-dealer on a fully disclosed basis, JMP Securities is not required to maintain a separate bank account for the exclusive benefit of customers in accordance with Rule 15c3-3 under the Exchange Act.

18. Related Party Transactions

The Company earns base management fees and incentive fees from serving as investment advisor for various affiliated entities, including corporations, partnerships and offshore investment companies. The Company also owns an investment in most of such affiliated entities. As of September 30, 2010 and December 31, 2009, the aggregate fair value of the Company's investments in the affiliated entities for which we serve as the investment advisor was \$43.3 million and \$55.5 million, respectively, which consisted of general partner investments in hedge funds of \$24.5 million and \$33.3 million, respectively, general partner investments in funds of funds of \$0.1 million and \$2.9 million, respectively, and investments in NYMT convertible preferred and common stock of \$18.7 million and \$19.3 million, respectively. Base management fees earned

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from these affiliated entities were \$2.5 million and \$2.2 million for the three months ended September 30, 2010 and 2009, respectively, and \$7.1 million and \$6.2 million for the nine months ended September 30, 2010 and 2009, respectively. Also, the Company earned incentive fees of \$0.7 million and \$1.1 million from these affiliated entities for the three months ended September 30, 2010 and 2009, respectively, and \$2.2 million and \$9.5 million for the nine months ended September 30, 2009 and 2010, respectively. As of September 30, 2010 and December 31, 2009, the Company had incentive fees receivable from these affiliated entities of \$0.7 million and \$2.6 million, respectively.

19. Guarantees

JMP Securities has agreed to indemnify its clearing broker for losses that the clearing broker may sustain from the accounts of customers introduced by JMP Securities. Should a customer not fulfill its obligation on a transaction, JMP Securities may be required to buy or sell securities at prevailing market prices in the future on behalf of its customer. JMP Securities' obligation under the indemnification has no maximum amount. All unsettled trades at September 30, 2010 and December 31, 2009 have subsequently settled with no resulting material liability to the Company. For the three months ended September 30, 2010 and 2009, the Company had no material loss due to counterparty failure, and has no obligations outstanding under the indemnification arrangement as of September 30, 2010 and December 31, 2009.

The Company is engaged in various investment banking and brokerage activities whose counterparties primarily include broker-dealers, banks and brokerage or investment banking clients. In the event 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 with which it conducts business.

20. Litigation

The Company is involved in a number of judicial, regulatory and arbitration matters arising in connection with our business. The outcome of matters we have been and currently are involved in cannot be determined at this time, and the results cannot be predicted with certainty. 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 financial condition, results of operations and cash flows. The Company may in the future become involved in additional litigation in the ordinary course of our business, including litigation that could be material to our business.

The Company reviews the need for any loss contingency reserves and establish reserves when, in the opinion of management, it is probable that a matter would result in liability and the amount of loss, if any, can be reasonably estimated. Generally, with respect to matters we are involved in, in view of the inherent difficulty of predicting the outcome of these matters, particularly in cases in which claimants seek substantial or indeterminate damages, it is not possible to determine whether a liability has been incurred or to reasonably estimate the ultimate or minimum amount of that liability until the case is close to resolution, in which case no reserve is established until that time other than for reasonably estimable legal fees and expenses. Management, after consultation with legal counsel, believes that the currently known actions or threats will not result in any material adverse effect on the Company's financial condition, results of operations or cash flows.

21. Financial Instruments with Off-Balance Sheet Risk, Credit Risk or Market Risk

The majority of the Company's transactions, and consequently the concentration of its credit exposure, is with its clearing broker. The clearing broker is also a significant source of short-term financing for the Company, which is collateralized by cash and securities owned by the Company and held by the clearing broker. The Company's securities owned may be pledged by the clearing broker. The receivable from the clearing broker represents amounts receivable in connection with the trading of proprietary positions.

The Company is also exposed to credit risk from other brokers, dealers and other financial institutions with which it transacts business. In the event that counterparties do not fulfill their obligations, the Company may be exposed to credit risk.

The Company's trading activities include providing securities brokerage services to institutional clients. To facilitate these customer transactions, the Company purchases proprietary securities positions (long positions) in equity securities. The Company also enters into transactions to sell securities not yet purchased (short positions), which are recorded as liabilities on the Consolidated Statements of Financial Condition. The Company is exposed to market risk on these long and short securities positions as a result of decreases in market value of long positions and increases in market value of short positions. Short positions create a liability to purchase the security in the market at prevailing prices. Such transactions result in off-balance sheet market risk as the Company's ultimate obligation to satisfy the sale of securities sold, but not yet purchased may exceed the amount recorded in the Consolidated Statements of Financial Condition. To mitigate the risk of losses, these securities positions are marked to market daily and are monitored by management to assure compliance with limits established by the Company.

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In connection with Cratos CLO, the Company is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include unfunded commitments to lend and standby letters of credit. The instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheet of the Company.

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Unfunded commitments are agreements to lend to a borrower, provided that all conditions have been met. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since certain commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each borrower's creditworthiness on a case by case basis.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance by a borrower to a third party. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on balance sheet instruments. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to borrowers. In its Corporate Credit segment, the Company had unfunded commitments of \$0.1 million and \$3.4 million at September 30, 2010 and December 31, 2009, respectively, and standby letters of credit of \$0.3 million and \$1.8 million, at September 30, 2010 and December 31, 2009, respectively. These commitments relate to the CLO and do not extend to JMP Group Inc.

22. Business Segments

Prior to the acquisition of Cratos in April 2009, the Company's business results were categorized into the following two segments: Broker-Dealer and Asset Management. After the acquisition of Cratos, the Company's business results are categorized into the following three business segments: Broker-Dealer, Asset Management and Corporate Credit. The Broker-Dealer segment includes a broad range of services, such as underwriting and acting as a placement agent for public and private capital raising transactions and financial advisory services in M&A, restructuring and other strategic transactions. The Broker-Dealer segment also includes institutional brokerage services and equity research services to our institutional investor clients. The Asset Management segment includes the management of a broad range of pooled investment vehicles, including the Company's hedge funds, funds of funds, as well as the Company's principal investments in public and private securities. The Corporate Credit segment includes the management of collateralized loan obligations and certain principal investments through JMP Capital.

The accounting policies of the segments are consistent with those described in the Significant Accounting Policies in Note 2.

Revenue generating activities between segments are eliminated from the segment results for reporting purposes. These activities include fees paid by the Broker-Dealer segment to the Asset Management segment for the management of its investment portfolio as well as fees paid by the Corporate Credit segment to the Asset Management segment for co-management of its investment portfolio.

The Company's segment information for the three and nine months ended September 30, 2010 and 2009 was prepared using the following methodology:

Revenues and expenses directly associated with each segment are included in determining segment operating income.

Revenues and expenses not directly associated with a specific segment are allocated based on the most relevant measures applicable, including revenues, headcount and other factors.

Each segment's operating expenses include: a) compensation and benefits expenses that are incurred directly in support of the segments and b) other operating expenses, which include expenses for premises and occupancy, professional fees, travel and entertainment, communications and information services, equipment and indirect support costs (including compensation and other operating expenses related thereto) for administrative services.

The Company evaluates segment results based on revenue and segment operating income before noncontrolling interest and taxes.

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Management believes that the following information provides a reasonable representation of each segment's contribution to revenues, income (loss) before noncontrolling interest and income tax expense (benefit) and assets:

<i>(In thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Broker-Dealer				
Net revenues after provision for loan losses	\$ 18,149	\$ 22,449	\$ 51,298	\$ 59,043
Non-interest expenses	17,016	22,681	55,011	56,930
Segment income (loss) before income tax expense	\$ 1,133	\$ (232)	\$ (3,713)	\$ 2,113
Segment assets	\$ 84,249	\$ 88,661	\$ 84,249	\$ 88,661
Asset Management				
Net revenues after provision for loan losses	\$ 4,411	\$ 5,258	\$ 11,873	\$ 24,257
Non-interest expenses	3,006	6,800	9,998	23,203
Segment income (loss) before income tax expense	\$ 1,405	\$ (1,542)	\$ 1,875	\$ 1,054
Segment assets	\$ 64,664	\$ 70,892	\$ 64,664	\$ 70,892
Corporate Credit				
Net revenues after provision for loan losses	\$ 10,121	\$ 14,012	\$ 37,574	\$ 20,090
Non-interest expenses	8,080	5,678	22,633	8,249
Segment income before income tax expense	\$ 2,041	\$ 8,334	\$ 14,941	\$ 11,841
Segment assets	\$ 454,390	\$ 400,460	\$ 454,390	\$ 400,460
Consolidated Entity				
Net revenues after provision for loan losses	\$ 32,681	\$ 41,719	\$ 100,745	\$ 103,390
Non-interest expenses	28,102	35,159	87,642	88,382
Income before income tax expense	\$ 4,579	\$ 6,560	\$ 13,103	\$ 15,008
Total assets	\$ 603,303	\$ 560,013	\$ 603,303	\$ 560,013

23. Summarized financial information for equity method investments and NYMT

The tables below present summarized financial information of the hedge funds which the Company accounts for under the equity method. The financial information below represents 100% of the net assets, net realized and unrealized gains (losses) and net investment income (loss) of such hedge funds as of the dates and for the periods indicated.

<i>(In thousands)</i>	September 30, 2010	December 31, 2009
	Net Assets	Net Assets
Harvest Opportunity Partners II	\$ 73,481	\$ 73,895
Harvest Small Cap Partners	243,166	336,083
Harvest Consumer Partners	8,491	12,117
Harvest Technology Partners	28,680	22,395
Harvest Global Select Partners		5,559

Harvest Diversified Partners

33,098

	Three Months Ended September 30,			
	2010		2009	
	Net Realized and Unrealized Gains (Losses)	Net Investment Income (Loss)	Net Realized and Unrealized Gains (Losses)	Net Investment Income (Loss)
<i>(In thousands)</i>				
Harvest Opportunity Partners II	\$ 206	\$ (385)	\$ 7,816	\$ (112)
Harvest Small Cap Partners	(7,235)	(2,292)	(11,762)	(2,841)
Harvest Consumer Partners	347	(60)	544	(28)
Harvest Technology Partners	(657)	(159)	(127)	(84)
Harvest Global Select Partners			73	(68)
Harvest Diversified Partners	189	(190)		

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	Nine Months Ended September 30,			
	2010		2009	
	Net Realized and Unrealized Gains (Losses)	Net Investment Income (Loss)	Net Realized and Unrealized Gains (Losses)	Net Investment Income (Loss)
<i>(In thousands)</i>				
Harvest Opportunity Partners II	\$ 5,224	\$ (1,095)	\$ 13,752	\$ (425)
Harvest Small Cap Partners	(17,052)	(8,618)	39,360	(12,584)
Harvest Consumer Partners	(217)	(191)	1,332	(92)
Harvest Technology Partners	(382)	(431)	2,809	(241)
Harvest Global Select Partners	739	(99)	136	(115)
Harvest Diversified Partners	1,615	(523)		

The tables below present summarized financial information of NYMT at September 30, 2010 and December 31, 2009 as well as for the three and nine months ended September 30, 2010 and 2009.

	Three Months Ended September 30, Nine Months Ended September 30,			
	2010		2009	
<i>(In thousands)</i>				
Statement of Operations Data:				
Interest income	\$ 4,536	\$ 7,994	\$ 15,942	\$ 24,200
Interest expense investment securities and loans held in securitization trusts	1,211	1,864	3,887	7,041
Provision for loan losses	(734)	(526)	(1,336)	(1,414)
Impairment loss on investment securities				(119)
Realized gain on investment securities and related hedges	1,860	359	3,958	623
Income from continuing operations	1,279	2,641	4,910	6,978
Net income	1,577	2,877	5,787	7,478

	September 30, 2010	December 31, 2009
<i>(In thousands)</i>		
Statement of Financial Condition Data:		
Investment securities available for sale at fair value (including pledged securities of \$40,937 and \$91,071 at September 30, 2010 and December 31, 2009, respectively)	\$ 99,191	\$ 176,691
Mortgage loans held in securitization trusts (net)	236,050	276,176
Total assets	404,042	488,814
Financing arrangements, portfolio investments	38,465	85,106
Collateralized debt obligations	227,665	266,754
Convertible preferred debentures (net)	19,963	19,851
Total liabilities	336,575	425,827

24. Subsequent Events

On November 2, 2010, the Company's board of directors declared a cash dividend of \$0.015 per share of common stock for the third quarter of 2010 to be paid on December 3, 2010, to common stockholders of record on November 19, 2010.

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ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read together with the unaudited consolidated financial statements and the related notes included elsewhere in this report. For additional context with which to understand our financial condition and results of operations, refer to the MD&A for the fiscal year ended December 31, 2009 contained in our annual report on Form 10-K filed with the SEC on March 9, 2010, as well as the Consolidated Financial Statements and Notes contained therein.

Cautionary Statement Regarding Forward Looking Statements

This MD&A and other sections of this report contain forward looking statements. We make forward-looking statements, as defined by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, and in some cases, you can identify these statements by forward-looking words such as if, shall, may, might, will likely result, should, expect, plan, anticipate, believe, estimate, objective, predict, potential or continue, the negative of these terms and other comparable terminology. These forward-looking statements, which are based on various underlying assumptions and expectations and are subject to risks, uncertainties and other unknown factors, may include projections of our future financial performance based on our growth strategies and anticipated trends in our business. These statements are only predictions based on our current expectations and projections about future events that we believe to be reasonable. There are or may be important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the historical or future results, level of activity, performance or achievements expressed or implied by such forward-looking statements. These factors include, but are not limited to, those discussed under the caption Risk Factors in our annual report on Form 10-K and this quarterly report on Form 10-Q. In preparing this MD&A, we presume that readers have access to and have read the MD&A in our Annual report on Form 10-K, pursuant to Instruction 2 to paragraph (b) of Item 303 of Regulation S-K. We undertake no duty to update any of these forward-looking statements after the date of filing of this report to conform such forward-looking statements to actual results or revised expectations, except as otherwise required by law.

Overview

We are a full-service investment banking and asset management firm headquartered in San Francisco. We have a diversified business model with a focus on small and middle-market companies and provide:

investment banking, including corporate finance, mergers and acquisitions and other strategic advisory services, to corporate clients;

sales and trading, and related brokerage services to institutional investors;

proprietary equity research in our six target industries;

asset management products and services to institutional investors, high net-worth individuals and for our own account; and

management of collateralized loan obligations.

Components of Revenues

We derive revenues primarily from fees earned from our investment banking business, net commissions on our trading activities in our sales and trading business, asset management fees in our asset management business and interest income on collateralized loan obligations we manage. We also generate revenues from principal transactions, interest, dividends, and other income.

Investment Banking

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We earn investment banking revenues from underwriting securities offerings, arranging private placements and providing advisory services in mergers and acquisitions and other strategic advisory assignments.

Underwriting Revenues

We earn underwriting revenues from securities offerings in which we act as an underwriter, such as initial public offerings and follow-on equity offerings. Underwriting revenues include management fees, underwriting fees, selling concessions and realized and unrealized net gains and losses on equity positions held in inventory for a period of time to facilitate the completion of certain underwritten transactions. We record underwriting revenues, net of related syndicate expenses, at the time the underwriting is completed. In syndicated underwritten transactions, management estimates our share of transaction-related expenses incurred by the syndicate, and we recognize revenues net of such expense. On final settlement by the lead manager, typically 90 days from the trade date of the transaction, we adjust these amounts to reflect the actual transaction-related expenses and our resulting underwriting fee. We receive a higher proportion of total fees in underwritten transactions in which we act as a lead manager.

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Our strategic advisory revenues primarily include success fees on closed merger and acquisition transactions, as well as retainer fees, earned in connection with advising both buyers and sellers transactions. We also earn fees for related advisory work and other services such as providing fairness opinions and valuation analyses. We record strategic advisory revenues when the transactions or the services (or, if applicable, separate components thereof) to be performed are substantially completed, the fees are determinable and collection is reasonably assured.

Private Placement Revenues

We earn agency placement fees in non-underwritten transactions such as private placements of equity securities, private investments in public equity (PIPE) transactions, Rule 144A private offerings and trust preferred securities offerings. We record private placement revenues on the closing date of these transactions.

Since our investment banking revenues are generally recognized at the time of completion of each transaction or the services to be performed, these revenues typically vary between periods and may be considerably affected by the timing of the closing of significant transactions.

Brokerage Revenues

Our brokerage revenues include commissions paid by customers from brokerage transactions in exchange-listed and over-the-counter (OTC) equity securities. Commissions are recognized on a trade date basis. Brokerage revenues also include net trading gains and losses that result from market-making activities and from our commitment of capital to facilitate customer transactions. Our brokerage revenues may vary between periods, in part depending on commission rates, trading volumes and our ability to continue to deliver research and other value-added services to our clients. The ability to execute trades electronically, through the Internet and through other alternative trading systems has increased pressure on trading commissions and spreads. We expect this trend toward alternative trading systems and pricing pressures in our brokerage business to continue. We are, to some extent, compensated through brokerage commissions for the value of research and other value added services we deliver to our clients. These soft dollar practices have been the subject of discussion among regulators, the investment banking community and our sales and trading clients. In particular, commission sharing arrangements have been adopted by some large institutional investors. In these arrangements, these institutional investors concentrate their trading with fewer execution brokers and pay a fixed amount for execution with an additional amount set aside for payments to other firms for research or other brokerage services. Accordingly, we may experience reduced (or eliminated) trading volume with such investors but may be compensated for our research and sales efforts through allocations of the designated amounts. Depending on the extent to which we adopt this practice and depending on our ability to reach arrangements on terms acceptable to us, this trend would likely impair the revenues and profitability of our commission business by negatively affecting both volumes and trading commissions in our commission business.

Asset Management Fees

Asset management fees for hedge funds, funds of funds and private equity funds include base management fees and incentive fees earned from managing investment partnerships sponsored by us and investment accounts owned by clients. Base management fees earned by us are generally based on the fair value of assets under management or aggregate capital commitments and the fee schedule for each fund and account. We also earn incentive fees that are based upon the performance of investment funds and accounts. For most of the funds, such fees are based on a percentage of the excess of an investment return over a specified highwater mark or hurdle rate over a defined performance period. For private equity funds, incentive fees are based on a specified percentage of realized gains from the disposition of each portfolio investment in which each investor participates, and are earned by the Company after returning contributions by the investors for that portfolio investment and for all other portfolio investments in which each such investor participates that have been disposed of at the time of distribution.

As of September 30, 2010, the contractual base management fees earned from each of these investment funds ranged between 1% and 2% of assets under management or were 2% of aggregate committed capital. The contractual incentive fees were generally (i) 20%, subject to high-water marks, for the hedge funds; (ii) 5% to 20%, subject to high-water marks or a performance hurdle rate, for the funds of funds; (iii) 25%, subject to a performance hurdle rate, for Harvest Mortgage Opportunities Partners (HMOP); 35%, subject to high-water marks for New York Mortgage Trust, Inc. (NYMT); and (iv) 20%, subject to high-water marks, for HGC. Our asset management revenues are subject to fluctuations due to a variety of factors that are unpredictable, including the overall condition of the economy and the securities markets as a whole and our core sectors. These conditions can have a material effect on the inflows and outflows of assets under management, and the performance of our asset management funds. For example, a significant portion of the performance-based or incentive revenues that we recognize are based on the value of securities held in the funds we manage. The value of these securities includes unrealized gains or losses that

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may change from one period to another.

Asset management fees for the two CLOs the Company manages currently consist only of base management fees. For one of the CLOs, the Company earns incentive fees in the event that specified cumulative investment returns are achieved, but such investment returns have not been achieved yet. The Company recognizes base management fees for the CLOs on a monthly basis over the period in which the collateral management services are performed. The base management fees for the CLOs are calculated as a percentage of the average aggregate collateral balances for a specified period. As we consolidate Cratos CLO, the management fees earned at JMPCA from Cratos CLO are eliminated on

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consolidation in accordance with U.S. GAAP. At September 30, 2010, the contractual base management fees earned from the CLOs ranged from 0.14% to 0.50% of the average aggregate collateral balance for a specified period.

The following tables present certain information with respect to the investment funds managed by Harvest Capital Strategies (HCS) and CLOs managed by JMP Credit Advisors LLC (JMPCA):

<i>(In thousands)</i>	Assets Under Management (1) at		Company's Share of Assets Under Management at	
	September 30, 2010	December 31, 2009	September 30, 2010	December 31, 2009
Funds Managed by HCS:				
Hedge Funds:				
Harvest Opportunity Partners II	\$ 73,481	\$ 73,895	\$ 4,232	\$ 10,438
Harvest Small Cap Partners	243,166	336,083	4,136	8,741
Harvest Consumer Partners	8,491	12,117	103	5,590
Harvest Technology Partners	28,680	22,395	102	7,457
Harvest Mortgage Opportunities Partners (2)	10,264	10,544	6,913	7,090
Harvest Global Select Partners		5,559		1,086
Harvest Diversified Partners	33,098		15,942	
Private Equity Funds:				
Harvest Growth Capital Fund I (2)	4,731		654	
Funds of Funds:				
JMP Masters Fund	72,574	97,931	98	2,933
REITs:				
New York Mortgage Trust	48,414	48,414	N/A	N/A
HCS Totals	\$ 522,899	\$ 606,938	\$ 32,180	\$ 43,335
CLOs Managed by JMPCA:				
Cratos CLO (2)	473,418	495,111	N/A	N/A
Other	292,742		N/A	N/A
JMPCA Totals	\$ 766,160	\$ 495,111	\$ N/A	\$ N/A
JMP Group Inc. Totals	\$ 1,289,059	\$ 1,102,049	\$ 32,180	\$ 43,335

(1) For hedge funds, private equity funds and funds of funds, assets under management represent the net assets of such funds. For New York Mortgage Trust (NYMT), assets under management represent the portion of the net assets of NYMT that is subject to the management fee calculation. In connection with its investment in NYMT, in January 2008, the Company entered into an advisory agreement between HCS and NYMT. For CLOs, assets under management represent the sum of the aggregate collateral balance and restricted cash to be reinvested in collateral, upon which management fees are earned.

(2) HMOP and Cratos CLO were consolidated in the Company's Statements of Financial Condition at September 30, 2010 and December 31, 2009. HGC was consolidated in the Company's Statement of Financial Condition at September 30, 2010.

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<i>(In thousands)</i>	Three Months Ended September 30, 2010			Nine Months Ended September 30, 2010		
	Company's Share of Change in Fair Value	Management Fee	Incentive Fee	Company's Share of Change in Fair Value	Management Fee	Incentive Fee
Hedge Funds:						
Harvest Opportunity Partners II	\$ 2	\$ 180	\$	\$ 193	\$ 512	\$ 380
Harvest Small Cap Partners	(199)	1,504		(513)	4,686	
Harvest Consumer Partners	4	22		(222)	64	
Harvest Technology Partners	(3)	87		(240)	217	40
Harvest Mortgage Opportunities Partners (1)	186	39	39	597	118	128
Harvest Global Select Partners				60	31	118
Harvest Diversified Partners	35	72	6	794	190	105
Private Equity Funds:						
Harvest Growth Capital Fund I (1)	161	78		160	156	
Funds of Funds:						
JMP Masters Fund	(1)	174		115	525	
REITs:						
New York Mortgage Trust		232	729		577	1,569
CLOs:						
Cratos CLO (1)	N/A	611	N/A	N/A	1,512	N/A
Other	N/A	262		N/A	262	
Totals	\$ 185	\$ 3,261	\$ 774	\$ 944	\$ 8,850	\$ 2,340

- (1) Revenues earned from HMOP, HGC and Cratos CLO are consolidated and then eliminated in consolidation in the Company's Statements of Operations, net of noncontrolling interest.

<i>(In thousands)</i>	Three Months Ended September 30, 2009			Nine Months Ended September 30, 2009		
	Company's Share of Change in Fair Value	Management Fee	Incentive Fee	Company's Share of Change in Fair Value	Management Fee	Incentive Fee
Hedge Funds:						
Harvest Opportunity Partners II	\$ 1,146	\$ 142	\$ 688	\$ 1,944	\$ 432	\$ 931
Harvest Small Cap Partners	(342)	1,548	2	1,677	4,312	7,943
Harvest Consumer Partners	229	18	34	539	39	73
Harvest Technology Partners	(58)	40		1,186	84	184
Harvest Mortgage Opportunities Partners (1)	480	50		1,719	156	
Harvest Global Select Partners	6	18	2	19	26	8
Funds of Funds:						
JMP Masters Fund	108	221		191	658	
JMP Emerging Masters Fund	14	25		40	73	
REITs:						
New York Mortgage Trust	1,731	179	334	4,204	545	378
CLOs:						
Cratos CLO (1)	N/A	627	N/A	N/A	1,233	N/A
Totals	\$ 3,314	\$ 2,868	\$ 1,060	\$ 11,519	\$ 7,558	\$ 9,517

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- (1) Revenues earned from HMOP and Cratos CLO are consolidated and then eliminated in consolidation in the Company's Statements of Operations, net of noncontrolling interest.

Principal Transactions

Principal transaction revenues includes realized and unrealized net gains and losses resulting from our principal investments, which includes investments in equity and other securities for our own account and as the general partner of funds managed by us, warrants we may receive from certain investment banking assignments, as well as limited partner investments in private funds managed by third parties. In addition, we invest a portion of our capital in a portfolio of equity securities managed by HCS and in side-by-side investments in the funds managed by us. In certain cases, we also co-invest alongside our institutional clients in private transactions resulting from our investment banking business.

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Gain on Sale and Payoff of Loans

Gain on sale and payoff of loans consists of gains from the sale and payoff of loans collateralizing asset-backed securities at JMP Credit. Gains are recorded when the proceeds exceed the carrying value of the loan.

Gain on Repurchase of Asset-Backed Securities Issued

Gain on repurchase of asset-backed securities issued (ABS) primarily consists of gains from repurchases of our ABS from third parties. Gains are recorded when the repurchase price is less than the carrying value of the ABS.

Gain on Bargain Purchase

A bargain purchase gain was recognized upon the acquisition of Cratos by JMP Credit on April 7, 2009. This represents the difference between the fair value of net assets acquired and the consideration given to the sellers.

Net Dividend Income

Net dividend income comprises dividends from our investments offset by dividend expense for paying short positions in our principal investment portfolio.

Other Income

Other income includes loan restructuring fees at JMP Credit and revenues from fee sharing arrangements with, and fees earned to raise capital for third-party investment partnerships, or funds.

Interest Income

Interest income primarily consists of interest income earned on loans collateralizing asset backed securities issued and loans held for investment. Interest income on loans comprises the stated coupon as a percentage of the face amount receivable as well as accretion of accretable or purchase discounts and deferred fees. Interest income is recorded on the accrual basis in accordance with the terms of the respective loans unless such loans are placed on non-accrual status.

Interest Expense

Interest expense primarily consists of interest expense incurred on asset-backed securities issued and notes payable. Interest expense on asset-backed securities is the stated coupon payable as a percentage of the principal amount as well as amortization of the liquidity discount which was recorded at the acquisition date of Cratos. Interest expense is recorded on the accrual basis in accordance with the terms of the respective asset-backed securities issued and note payable.

Provision for Loan Losses

Loans held for investment are net of reserves recognized on our loan notes and non-revolving credit agreements at our JMP Capital LLC subsidiary (collectively loans held for investment) and loans collateralizing ABS (at JMP Credit) to record them at their estimated net realizable value. The Company maintains an allowance for loan losses that is intended to estimate loan losses inherent in its loan portfolio. A provision for loan losses is charged to expense to establish the allowance for loan losses. The allowance for loan losses is maintained at a level, in the opinion of management, sufficient to offset estimated losses inherent in the loan portfolio as of the date of the financial statements. The appropriateness of the allowance and the allowance components are reviewed quarterly. The Company's estimate of each allowance component is based on observable information and on market and third party data that the Company believes are reflective of the underlying loan losses being estimated.

The Company provides an allowance for loans that are considered impaired. A loan is considered impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. The Company measures impairment of a loan

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based upon either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price or the fair value of the collateral securing the loan if the loan is collateral dependent, depending on the circumstances and the Company's collection strategy. For those loans held by Cratos at the date of acquisition by JMP Credit, and deemed impaired at that date or a subsequent date, allowance for loan losses is calculated considering two further factors. For loans deemed impaired at the date of acquisition if there is a further decline in expected future cash flows, this reduction is recognized as a specific reserve in the current quarter in accordance with above. For those loans deemed impaired subsequent to the acquisition date, if the net realizable value is lower than the current carrying value then the carrying value is reduced and the difference is booked as provision for loan losses. If the total discount from unpaid principal balance to carrying value is larger than the expected loss at the date of assessment, no provision for loan losses is recognized.

In addition, the Company provides an allowance on a loan by loan basis at JMP Credit for loans that were purchased after the Cratos acquisition. The Company employs internally developed and third party estimation tools for measuring credit risk (loan ratings, probability of

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default, and exposure at default), which are used in developing an appropriate allowance for loan losses. The Company performs periodic detailed reviews of its loan portfolio to identify risks and to assess the overall collectibility of loans.

Loans which are deemed to be uncollectible are charged off and the charged-off amount is deducted from the allowance.

Components of Expenses

We classify our expenses as compensation and benefits, administration, brokerage, clearing and exchange fees and other expenses. A significant portion of our expense base is variable, including compensation and benefits, brokerage and clearance, communication and technology and travel and business development expenses.

Compensation and Benefits

Compensation and benefits is the largest component of our expenses and includes employees' base pay, performance bonuses, sales commissions, related payroll taxes, medical and benefits expenses, as well as expenses for contractors, temporary employees and equity-based compensation. Our employees receive a substantial portion of their compensation in the form of individual performance-based bonuses. As is the widespread practice in our industry, we pay bonuses on an annual basis, which for senior professionals typically make up a large portion of their total compensation. Bonus payments may have a greater impact on our cash position and liquidity in the periods in which they are paid than would otherwise be reflected in our Consolidated Statements of Operations. We accrue for the estimated amount of these bonus payments ratably over the applicable service period.

Compensation is accrued using specific ratios of total compensation and benefits to total revenues based on revenue categories, as adjusted if, in management's opinion, such adjustments are necessary and appropriate to maintain competitive compensation levels.

Administration

Administration expense primarily includes the cost of hosted conferences, non-capitalized systems and software expenditures, insurance, business tax (non-income), office supplies, recruiting and regulatory fees.

Brokerage, Clearing and Exchange Fees

Brokerage, clearing and exchange fees include the cost of floor and electronic brokerage and execution, securities clearance, and exchange fees. We currently clear our securities transactions through Penson Financial Services Inc. (formally Ridge Clearing & Outsourcing Solutions, Inc. which was acquired by Penson Worldwide, Inc. on June 28, 2010). Changes in brokerage, clearing and exchange fees fluctuate largely in line with the volume of sales and trading activity.

Impairment Loss on Purchased Management Contract

Impairment loss on purchased management contract relates to a CLO management contract we purchased from Princeton Advisory Group, Inc. on September 8, 2010 for \$3.8 million. Since a single investor had previously acquired control of the right to transfer the management contract without cause at any time with 90 days' notice, the Company recorded an impairment charge of \$2.8 million for the quarter ended September 30, 2010.

Other Expenses

Other operating expenses primarily include travel and business development, market data, occupancy, legal and accounting professional fees, depreciation and CLO administration expense at JMP.

Noncontrolling Interest

Noncontrolling interest for three and nine months ended September 30, 2010 includes the interest of third parties in JMP Credit (through August 6, 2010), Cratos CLO (effective August 6, 2010), Harvest Mortgage Opportunities Partners (HMOP) and Harvest Growth Capital (HGC), partially-owned subsidiaries consolidated in our financial statements. Noncontrolling interest for the three and nine months ended September 30, 2009 includes the interest of third parties in JMP Credit, HMOP and Opportunity Acquisition Corp. (SPAC), partially-owned subsidiaries consolidated in our financial statements. SPAC was liquidated on December 31, 2009 with no distribution of assets to the

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noncontrolling interest holders due to its accumulated loss.

The partnership agreements for HMOP provide for the right of the limited partners to remove the general partners by a simple majority vote of the non-affiliated limited partners. The Company follows the authoritative guidance under GAAP regarding the determination of whether a general partner, or the general partners as a group, controls a limited partnership or similar entity when the limited partners have certain rights. Such guidance applies when a general partner controls a limited partnership and is required to consolidate the limited partnership in its financial statements. Under the guidance, the general partner in a limited partnership is presumed to control the limited partnership regardless of the extent of the general partners' ownership interest in the limited partnership. If the limited partners have either (a) the

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substantive ability to liquidate the limited partnership or otherwise remove the general partner without cause or (b) substantive participating rights, the general partner does not control the limited partnership. The partnership agreements for HMOP provide for the right of the limited partners to remove the general partner by a simple majority vote of the non-affiliated limited partners. Because of these substantive kick-out rights, the Company, as the general partner, did not control HMOP and therefore did not consolidate HMOP from January 2, 2009 through April 30, 2009. During the quarter ended June 30, 2009, several non-affiliated limited partners redeemed their interest in HMOP, and the remaining limited partners were no longer deemed to have substantive kick-out rights. As a result, the Company consolidated HMOP in its consolidated financial statements effective May 1, 2009.

The limited liability company agreements of HGC do not provide for the right of the members to remove the manager by a simple majority vote of the non-affiliated members and therefore the manager (with a minority interest in the limited liability company) is deemed to control HGC. As a result, the Company consolidated HGC from its inception on April 1, 2010.

On August 6, 2010, the Company and individual employee security holders (the Unitholders) of JMP Credit entered into an Exchange Agreement providing for, among other things, an offer to buy the minority interest units and shares in JMP Credit held by the Unitholders in exchange for a combination of (i) restricted common stock of the Company par value \$.001 per share, (ii) cash and (iii) certain Cratos CLO subordinated notes in such amounts as elected by the Unitholder. In connection with the Exchange Agreement, the Company issued an aggregate of 381,310 shares of restricted stock to the Unitholders and the Company received all the remaining units and shares of JMP Credit that it did not previously own. The restricted stock and the Cratos CLO notes are subject to limitations on transfer and repurchase rights of the Company in the event of certain terminations of the Unitholder s employment with the Company or its affiliates through June 1, 2013. As a result of the aforementioned transaction, the Company owns 100% of JMP Credit and approximately 94% of Cratos CLO.

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The following tables set forth our results of operations for the three and nine month periods ended September 30, 2010 and 2009 and are not necessarily indicative of the results to be expected for any future period.

<i>(In thousands)</i>	Three Months Ended September 30,		Change from	
	2010	2009	2009 to 2010	
			\$	%
Revenues				
Investment banking	\$ 12,332	\$ 10,391	\$ 1,941	18.7%
Brokerage	5,895	7,939	(2,044)	-25.7%
Asset management fees	3,283	3,266	17	0.5%
Principal transactions	1,055	5,981	(4,926)	-82.4%
Gain on sale and payoff of loans	6,990	6,727	263	3.9%
Gain on repurchase of asset-backed securities issued		4,096	(4,096)	N/A
Net dividend income	357	766	(409)	-53.4%
Other income	292	227	65	28.6%
Non-interest revenues	30,204	39,393	(9,189)	-23.3%
Interest income	11,525	12,214	(689)	-5.6%
Interest expense	(8,539)	(8,504)	(35)	0.4%
Net interest income	2,986	3,710	(724)	-19.5%
Provision for loan losses	(509)	(1,384)	875	-63.2%
Total net revenues after provision for loan losses	32,681	41,719	(9,038)	-21.7%
Non-interest Expenses				
Compensation and benefits	19,361	29,308	(9,947)	-33.9%
Administration	1,328	1,098	230	20.9%
Brokerage, clearing and exchange fees	1,177	1,317	(140)	-10.6%
Impairment loss on purchased management contract	2,750		2,750	N/A
Other	3,486	3,436	50	1.5%
Total non-interest expenses	28,102	35,159	(7,057)	-20.1%
Income before income tax expense	4,579	6,560	(1,981)	-30.2%
Income tax expense	1,943	2,879	(936)	-32.5%
Net income	2,636	3,681	(1,045)	-28.4%
Less: Net income attributable to noncontrolling interest	1,205	712	493	69.2%
Net income attributable to JMP Group Inc.	\$ 1,431	\$ 2,969	\$ (1,538)	-51.8%

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<i>(In thousands)</i>	Nine Months Ended September 30,		Change from	
	2010	2009	2009 to 2010	
			\$	%
Revenues				
Investment banking	\$ 28,436	\$ 25,104	\$ 3,332	13.3%
Brokerage	21,255	25,836	(4,581)	-17.7%
Asset management fees	9,316	15,766	(6,450)	-40.9%
Principal transactions	2,887	15,403	(12,516)	-81.3%
Gain on sale and payoff of loans	26,231	11,571	14,660	126.7%
Gain on repurchase of asset-backed securities issued		4,205	(4,205)	N/A
Gain on bargain purchase		1,179	(1,179)	N/A
Net dividend income	1,472	1,850	(378)	-20.4%
Other income	1,095	1,154	(59)	-5.1%
Non-interest revenues	90,692	102,068	(11,376)	-11.1%
Interest income	36,106	24,172	11,934	49.4%
Interest expense	(25,089)	(17,484)	(7,605)	43.5%
Net interest income	11,017	6,688	4,329	64.7%
Provision for loan losses	(964)	(5,366)	4,402	-82.0%
Total net revenues after provision for loan losses	100,745	103,390	(2,645)	-2.6%
Non-interest Expenses				
Compensation and benefits	65,474	70,849	(5,375)	-7.6%
Administration	4,324	3,541	783	22.1%
Brokerage, clearing and exchange fees	3,752	4,057	(305)	-7.5%
Impairment loss on purchased management contract	2,750		2,750	N/A
Other	11,342	9,935	1,407	14.2%
Total non-interest expenses	87,642	88,382	(740)	-0.8%
Income before income tax expense	13,103	15,008	(1,905)	-12.7%
Income tax expense	5,464	6,491	(1,027)	-15.8%
Net income	7,639	8,517	(878)	-10.3%
Less: Net income attributable to noncontrolling interest	2,305	1,228	1,077	87.7%
Net income attributable to JMP Group Inc.	\$ 5,334	\$ 7,289	\$ (1,955)	-26.8%

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Three Months Ended September 30, 2010, Compared to Three Months Ended September 30, 2009

Overview

Total net revenues after provision for loan losses decreased \$9.0 million, or 21.7%, from \$41.7 million for the quarter ended September 30, 2009 to \$32.7 million for the quarter ended September 30, 2010, driven by a decrease in non-interest revenues of \$9.2 million, a decrease in net interest income of \$0.7 million, partly offset by a decrease in provision for loan losses of \$0.9 million.

Non-interest revenues decreased \$9.2 million, or 23.3%, primarily due to a decrease in principal transaction revenues of \$4.9 million, a decrease in gain on repurchase of asset-backed securities issued of \$4.1 million and a decrease in brokerage revenues of \$2.0 million, partly offset by an increase in investment banking revenues of \$1.9 million.

Net interest income decreased \$0.7 million, or 19.5%, from \$3.7 million for the quarter ended September 30, 2009 to \$3.0 million for the same period in 2010. The decrease was primarily related to net interest income of JMP Credit which decreased from \$3.6 million for the quarter ended September 30, 2009 to \$3.0 million for the quarter ended September 30, 2010 as a result of increased net liquidity discount amortization.

Provision for loan losses decreased \$0.9 million, or 63.2%, from \$1.4 million for the quarter ended September 30, 2009 to \$0.5 million for the quarter ended September 30, 2010. The decrease was due to a decrease in provision recorded against loans collateralizing ABS issued of \$1.3 million, offset by an increase in provision recorded against loans held for investment of \$0.4 million.

Total non-interest expenses decreased \$7.1 million, or 20.1%, from \$35.2 million for the quarter ended September 30, 2009 to \$28.1 million for the quarter ended September 30, 2010, primarily due to a decrease in compensation and benefits of \$9.9 million, partly offset by an impairment loss on purchased management contract of \$2.8 million recorded in the quarter ended September 30, 2010.

Net income attributable to JMP Group Inc. decreased \$1.5 million from \$3.0 million for the quarter ended September 30, 2009 to \$1.4 million for the quarter ended September 30, 2010 and includes a decrease in income tax expense from \$2.9 million for the quarter ended September 30, 2009 to \$1.9 million for the quarter ended September 30, 2010.

Revenues

Investment Banking

Investment banking revenues increased \$1.9 million, or 18.7%, from \$10.4 million for the quarter ended September 30, 2009 to \$12.3 million for the quarter ended September 30, 2010. As a percentage of total net revenues after provision for loan losses, investment banking revenues increased from 24.9% for the quarter ended September 30, 2009 to 37.7% for the quarter ended September 30, 2010. Public equity underwriting revenues decreased \$2.2 million, or 33.7%, from \$6.5 million for the quarter ended September 30, 2009 to \$4.3 million for the quarter ended September 30, 2010. We executed seven public equity underwriting transactions in the quarter ended September 30, 2010 compared to twelve in the quarter ended September 30, 2009. We acted as a lead manager on three transactions in the quarter ended September 30, 2010 compared to one in the same period in 2009. Private placement revenues increased \$3.9 million, or 303.8%, from \$1.3 million for the quarter ended September 30, 2009 to \$5.1 million for the same period in 2010. We executed five private placement transactions in the quarter ended September 30, 2010 compared to two in the same period in 2009. Our strategic advisory revenues increased \$0.3 million, or 10.5%, from \$2.6 million for the quarter ended September 30, 2009 to \$2.9 million for the quarter ended September 30, 2010. We executed four strategic advisory transactions in the quarter ended September 30, 2010 compared to three in the quarter ended September 30, 2009.

Brokerage Revenues

Brokerage revenues decreased \$2.0 million, or 25.7%, from \$7.9 million for the quarter ended September 30, 2009 to \$5.9 million for the quarter ended September 30, 2010. The decrease was the result of lower gross commissions. Brokerage revenues decreased as a percentage of total net revenues after provision for loan losses, from 19.0% for the quarter ended September 30, 2009 to 18.0% for the quarter ended September 30, 2010.

Asset Management Fees

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Asset management fees were \$3.3 million for both quarters ended September 30, 2009 and 2010. Asset management fees include base management fees and incentive fees for funds and CLOs under management. Base management fees increased \$0.4 million from \$2.2 million for the quarter ended September 30, 2009 to \$2.6 million for the same period in 2010. Incentive fees decreased \$0.4 million from \$1.1 million for the quarter ended September 30, 2009 to \$0.7 million for the same period in 2010. The increase in base management fees was primarily due to the management fees for a new CLO purchased during the quarter ended September 30, 2010 of \$0.3 million recorded at JMPCA. The decrease in incentive fees reflects a decline of \$0.7 million related to Harvest Opportunity Partners II, partly offset by an increase of \$0.4

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million related to NYMT. As a percentage of total net revenues after provision for loan losses, asset management fees increased from 7.8% for the quarter ended September 30, 2009 to 10.0% for the same period in 2010.

Principal Transactions

Principal transaction revenues decreased \$4.9 million, or 82.4%, from \$6.0 million for the quarter ended September 30, 2009 to \$1.1 million for the same period in 2010. The decrease reflects lower revenues from equity and other securities and from our family of hedge funds and funds of funds. Revenues from equity and other securities decreased \$3.7 million, or 75.5%, from \$4.9 million for the quarter ended September 30, 2009 to \$1.2 million for the same period in 2010, driven by a decrease in unrealized gain/loss on our convertible preferred security and equity security investments in NYMT of \$2.5 million, a decrease in revenues from marketable equity securities of \$3.0 million, partly offset by an increase in revenues from private equity and debt securities of \$1.8 million. Revenues from our family of hedge funds and funds of funds decreased \$1.3 million, from \$1.1 million for the quarter ended September 30, 2009 to \$0.2 million for the same period in 2010. As a percentage of total net revenues after provision for loan losses, principal transaction revenues decreased from 14.3% for the quarter ended September 30, 2009 to 3.2% for the same period in 2010.

Gain on Sale and Payoff of Loans

Gain on sale and payoff of loans increased \$0.3 million from \$6.7 million for the quarter ended September 30, 2009 to \$7.0 million for the same period in 2010, with all of the gain generated at JMP Credit. During the quarter ended September 30, 2010, 17 loans were sold or paid off, resulting in a total net gain of \$7.0 million. Of the total net gain of \$7.0 million, \$7.3 million was related to nine loan payoffs, where the borrowers repaid the loans at a premium to our carrying value. The net gain on loan payoffs was partly offset by net loss on loan sales of \$0.3 million. Of the eight loans sold during the quarter ended September 30, 2010, six loans were sold at a discount to our carrying value and two loans were sold at a premium to our carrying value, resulting in a net loss. While we expect further gains in future periods, these revenues are highly unpredictable as we are not actively marketing the loans collateralized by asset-backed securities for sale. As a percentage of total net revenues after provision for loan losses, gain on sale and payoff of loans increased from 16.1% for the quarter ended September 30, 2009 to 21.4% for the same period in 2010.

Gain on Repurchase of Asset-Backed Securities Issued

Gain on repurchase of ABS issued decreased from \$4.1 million for the quarter ended September 30, 2009 to zero for the quarter ended September 30, 2010. The majority of the gain in 2009 resulted from a repurchase in July 2009 in the open market of \$4.0 million par value of our ABS at a discount, resulting in a gain of \$3.5 million. This type of gain is not expected to recur at these levels in future periods, unless the market price of our ABS issued falls significantly from our carrying value as of September 30, 2010 and we can take advantage of opportunistic repurchases.

Net Dividend Income

Net dividend income decreased \$0.4 million, or 53.4%, from \$0.8 million for the quarter ended September 30, 2009 to \$0.4 million for the quarter ended September 30, 2010. The decrease was primarily due to lower net dividends in our principal investment portfolio.

Other Income

Other income increased \$0.1 million, or 28.6%, from \$0.2 million for the quarter ended September 30, 2009 to \$0.3 million for the quarter ended September 30, 2010. For both quarters, other income was primarily comprised of revenues from fee sharing arrangements with, and fees earned to raise capital for, third-party investment partnerships or funds.

Interest Income

Interest income decreased \$0.7 million, or 5.6%, from \$12.2 million for the quarter ended September 30, 2009 to \$11.5 million for the same period in 2010. The decrease was primarily related to JMP Credit, which recorded interest income of \$12.0 million and \$11.4 million for the quarters ended September 30, 2009 and 2010, respectively.

At JMP Credit, for the quarter ended September 30, 2010, total interest income of \$11.4 million was mainly comprised of interest earned on our 152 performing loans of \$5.3 million, amortization of purchase discounts and other deferred fees of \$0.4 million and the non-cash accretion of liquidity discounts on our loans of \$5.7 million. Of the \$5.7 million non-cash accretion of liquidity discounts, \$0.9 million was accelerated due to unscheduled principal payments on these loans. The annualized weighted average interest rate on the loans (excluding the liquidity discount

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accretion) was 4.81% with a spread to weighted average LIBOR of 4.40% for the quarter ended September 30, 2010. The Company did not recognize any interest income, other than the accretion of liquidity discounts, for seven impaired loans with an aggregate weighted average loan balance of \$29.8 million that were on non-accrual status during the quarter.

At JMP Credit, for the quarter ended September 30, 2009, total interest income of \$12.0 million was mainly comprised of interest earned on our 84 performing loans of \$4.6 million, amortization of purchase discounts and other deferred fees of \$0.4 million and the non-cash

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amortization of liquidity discounts on our loans of \$7.0 million. Of the \$7.0 million non-cash accretion of liquidity discounts, \$0.3 million was accelerated due to unscheduled principal payments on these loans. The annualized weighted average interest rate on the loans was 4.83% with a spread to weighted average LIBOR of 4.18% for the quarter ended September 30, 2009. The Company did not recognize any interest income for 15 impaired loans with an aggregate weighted average loan balance of \$103.8 million that were on non-accrual status during the quarter.

Interest Expense

Interest expense was \$8.5 million for both quarters ended September 30, 2009 and 2010 and was primarily related to JMP Credit, which recorded interest expense of \$8.4 million and \$8.3 million for the quarters ended September 30, 2009 and 2010, respectively.

At JMP Credit, for the quarter ended September 30, 2010, interest expense of \$8.3 million was comprised of interest expense on ABS issued of \$1.3 million and non-cash amortization of the liquidity discount on the ABS issued of \$7.0 million. The annualized weighted average cost of funds (excluding the liquidity discount amortization) for the ABS issued during the quarter was 1.15% with a spread to weighted average LIBOR of 0.74%.

At JMP Credit, for the quarter ended September 30, 2009, interest expense of \$8.4 million was comprised of interest expense on ABS issued of \$1.5 million, non-cash amortization of the liquidity discount on the ABS issued of \$6.8 million, and interest expense on the contingent consideration of \$0.1 million. The annualized weighted average cost of funds for the ABS issued during the quarter was 1.34% with a spread to weighted average LIBOR of 0.70%.

Provision for Loan Losses

Provision for loan losses decreased \$0.9 million, or 63.2%, from \$1.4 million for the quarter ended September 30, 2009 to \$0.5 million for the same period in 2010. The decrease was primarily due to a decrease in provision against loans collateralizing ABS issued from \$1.5 million for the quarter ended September 30, 2009 to \$0.2 million for the same period in 2010, offset by an increase in the provision against loans held for investment of \$0.4 million. For the quarter ended September 30, 2010, the provision against loans collateralizing ABS issued of \$0.2 million was recorded as pooled reserve against performing loans that were purchased after the Cratos acquisition. For the quarter ended September 30, 2009, the provision against loans collateralizing ABS issued of \$2.5 million was comprised of \$1.4 million of specific reserves on impaired loans, which were recorded in addition to the credit discount recorded at the acquisition of Cratos and \$0.1 million of pooled reserve against performing loans.

Expenses*Compensation and Benefits*

Compensation and benefits, which includes employee payroll, taxes and benefits, performance-based cash bonus and commissions as well as equity-based compensation to our employees and managing directors, decreased \$9.9 million, or 33.9%, from \$29.3 million for the quarter ended September 30, 2009 to \$19.4 million for the quarter ended September 30, 2010.

Employee payroll, taxes and benefits, and consultant fees, increased \$0.5 million, or 6.4%, from \$7.8 million for the quarter ended September 30, 2009 to \$8.3 million for the same period in 2010 primarily due to severance payments made during the quarter ended September 30, 2010.

Performance-based bonus and commission decreased \$9.9 million, or 48.8%, from \$20.3 million for the quarter ended September 30, 2009 to \$10.4 million for the quarter ended September 30, 2010. The decrease was primarily due to a decrease in total net revenues after provision for loan losses from \$41.7 million for the quarter ended September 30, 2009 to \$32.7 million for the same period in 2010. In addition, the Company recorded a performance-based bonus accrual for senior management of \$6.8 million in the quarter ended September 30, 2009 but did not record such accrual in the quarter ended September 30, 2010.

Equity-based compensation decreased \$0.5 million, or 41.7%, from \$1.2 million for the quarter ended September 30, 2009 to \$0.7 million for the quarter ended September 30, 2010 primarily due to a \$0.4 million reduction in the amortization expense for RSUs granted in connection with the initial public offering reflecting scheduled vesting of such RSUs in May 2010. The total equity-based compensation expense for the quarter ended September 30, 2009 and 2010 included \$0.7 million and \$0.3 million, respectively, recognized for RSUs granted in connection with the initial public offering and \$0.5 million and \$0.4 million, respectively, recognized for RSUs granted after the initial public offering.

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Compensation and benefits as a percentage of revenues decreased from 70.3% of total net revenues after provision for loan losses for the quarter ended September 30, 2009 to 59.2% for the same period in 2010. This was primarily due to a higher compensation to revenue ratio for the quarter ended September 30, 2009 reflecting the performance-based bonus accrual for senior management of \$6.8 million described above. Excluding the hiring bonus expense of \$0.1 million and expense related to RSUs of \$0.7 million, compensation and benefits as a percentage of total net revenues after provision for loan losses was 56.7% for the quarter ended September 30, 2010. Excluding expense related to RSUs of \$1.2 million, compensation and benefits as a percentage of total net revenues after provision for loan losses was 67.3% for the quarter ended September 30, 2009.

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Administration

Administration expenses increased \$0.2 million, or 20.9%, from \$1.1 million for the quarter ended September 30, 2009 to \$1.3 million for the quarter ended September 30, 2010 primarily due to an increase in conference expense of \$0.3 million, offset by a decrease in other administration expenses of \$0.1 million. As a percentage of total net revenues after provision for loan losses, administration expense increased from 2.6% of total net revenues after provision for loan losses for the quarter ended September 30, 2009 to 4.1% for the same period in 2010.

Brokerage, Clearing and Exchange Fees

Brokerage, clearing and exchange fees decreased \$0.1 million, or 10.6%, from \$1.3 million for the quarter ended September 30, 2009 to \$1.2 million for the quarter ended September 30, 2010. The decrease was primarily due to a decrease in trading volume and lower execution costs per share. As a percentage of total net revenues after provision for loan losses, our brokerage, clearing and exchange fees increased from 3.2% for the quarter ended September 30, 2009 to 3.6% for the same period in 2010.

Impairment Loss on Purchased Management Contract

On June 11, 2010, the Company agreed to purchase the collateral management contracts for two collateralized loan obligations, or CLOs, from Princeton Advisory Group, Inc. for up to \$5.0 million. The transfers of the contracts were subject to the receipt of certain consents and other conditions. On September 8, 2010, the Company completed the purchase of one of the two management contracts for \$3.8 million, and the contract was transferred to JMPCA. However, since a single investor had previously acquired control of the right to transfer the management contract without cause at any time with 90 days' notice, the Company recorded an impairment charge of \$2.8 million for the quarter ended September 30, 2010. The Company has since restructured the transaction to provide the Company with indemnity from the seller in the amount of \$2.6 million, of which \$1.6 million is uncertain to be realized and \$1.0 million in cash. The indemnity amortizes over a period ending in February 2013. The Company has not been given notice that the management contract will be transferred to another manager and, as long as JMPCA remains the manager, it will continue to earn management fees from the CLO.

Other Expenses

Other expenses increased \$0.1 million, or 1.5%, from \$3.4 million for the quarter ended September 30, 2009 to \$3.5 million for the quarter ended September 30, 2010, primarily due to an increase in travel and entertainment expense of \$0.2 million, offset by a decrease in other expenses within this category of \$0.1 million. As a percentage of total net revenues after provision for loan losses, other expenses increased from 8.2% for the quarter ended September 30, 2009 to 10.7% for the same period in 2010.

Net Income (Loss) Attributable to Noncontrolling Interest

Net income attributable to noncontrolling interest increased \$0.5 million from \$0.7 million for the quarter ended September 30, 2009 to \$1.2 million for the quarter ended September 30, 2010. Noncontrolling interest for the quarter ended September 30, 2010 includes the interest of third parties in JMP Credit (through August 6, 2010), Cratos CLO (effective August 6, 2010), HMOP and HGC, partially-owned subsidiaries consolidated in our financial statements. Noncontrolling interest for the quarter ended September 30, 2009 relates to the interest of third parties in JMP Credit, HMOP and Opportunity Acquisition Corp. (SPAC), partially-owned subsidiaries consolidated in our financial statements. SPAC was liquidated on December 31, 2009. Because of the limited partners' substantive kick-out rights, HMOP was not consolidated from January 2, 2009 through April 30, 2009. During the quarter ended June 30, 2009, several non-affiliated limited partners redeemed their interest in HMOP, and the remaining limited partners were no longer deemed to have substantive kick-out rights. As a result, the Company consolidated HMOP in its consolidated financial statements effective May 1, 2009. The members of HGC do not have substantive kick-out rights, and therefore, HGC has been consolidated from inception on April 1, 2010.

Provision for Income Taxes

For the quarter ended September 30, 2010 and 2009, we recorded tax expense of \$1.9 million and \$2.9 million, respectively. The effective tax rate for the quarter ended September 30, 2010 and 2009 was 42.5% and 43.9%, respectively.

Nine months Ended September 30, 2010, Compared to Nine months Ended September 30, 2009

Overview

Total net revenues after provision for loan losses decreased \$2.7 million, or 2.6%, from \$103.4 million for the nine months ended September 30, 2009 to \$100.7 million for the nine months ended September 30, 2010, driven by a decrease in non-interest revenues of \$11.4 million, offset by an increase in net interest income of \$4.3 million and a decrease in provision for loan losses of \$4.4 million.

Non-interest revenues decreased \$11.4 million, or 11.1%, primarily due to a decrease in principal transaction revenues of \$12.5 million, a decrease in asset management revenues of \$6.5 million, a decrease in brokerage revenues of \$4.6 million and a decrease in gain on repurchase of asset-backed securities issued of \$4.2 million, partly offset by an increase in gain on sale and payoff of loans of \$14.7 million and an increase in investment banking revenues of \$3.3 million.

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Net interest income increased \$4.3 million, or 64.7%, from \$6.7 million for the nine months ended September 30, 2009 to \$11.0 million for the same period in 2010. The increase was primarily due to an increase in net interest income at JMP Credit of \$4.5 million, from \$6.4 million for the nine months ended September 30, 2009 to \$10.9 million for the nine months ended September 30, 2010.

Provision for loan losses decreased \$4.4 million, or 82.0%, from \$5.4 million for the nine months ended September 30, 2009 to \$1.0 million for the nine months ended September 30, 2010. The decrease was comprised of a decrease in provision recorded against loans held for investment of \$1.0 million and a decrease in provision recorded against loans collateralizing ABS issued of \$3.4 million.

Total non-interest expenses decreased from \$88.4 million for the nine months ended September 30, 2009 to \$87.6 million for the nine months ended September 30, 2010, primarily due to a decrease in compensation and benefits of \$5.4 million, offset by an impairment loss on purchased management contract recorded in 2010 of \$2.8 million, an increase in other expense of \$1.4 million and an increase in administration expense of \$0.8 million.

Net income attributable to JMP Group Inc. decreased \$2.0 million from \$7.3 million for the nine months ended September 30, 2009 to \$5.3 million for the nine months ended September 30, 2010 and includes income tax expense of \$6.5 million and \$5.5 million for the nine months ended September 30, 2009 and 2010, respectively.

Revenues

Investment Banking

Investment banking revenues increased \$3.3 million, or 13.3%, from \$25.1 million for the nine months ended September 30, 2009 to \$28.4 million for the same period in 2010, and increased as a percentage of total net revenues after provision for loan losses from 24.3% to 28.2%, respectively. The increase in revenues reflects a higher level of activity in our public equity underwriting and private placement business, partially offset by decreased activity in our strategic advisory business. Public equity underwriting revenues increased \$1.1 million, or 8.8%, from \$12.0 million for the nine months ended September 30, 2009 to \$13.1 million for the nine months ended September 30, 2010. We executed twenty-eight public equity underwriting transactions in the nine months ended September 30, 2010 compared to twenty-one in the nine months ended September 30, 2009. We acted as a lead manager on six transactions in the nine months ended September 30, 2010 and two in the same period in 2009. Private placement revenues increased \$3.9 million, or 94.1%, from \$4.2 million for the nine months ended September 30, 2009 to \$8.1 million for the nine months ended September 30, 2010. We executed ten private placement transactions in the nine months ended September 30, 2010 compared to seven in the same period in 2009. Our strategic advisory revenues decreased \$1.6 million, or 18.6%, from \$8.9 million for the nine months ended September 30, 2009 to \$7.3 million for the nine months ended September 30, 2010. We executed ten strategic advisory transactions in both of the nine-month periods ended September 30, 2010 and 2009.

Brokerage Revenues

Brokerage revenues decreased from \$25.8 million for the nine months ended September 30, 2009 to \$21.3 million for the nine months ended September 30, 2010. The decrease was the result of lower gross commissions. Brokerage revenues decreased as a percentage of total net revenues after provision for loan losses, from 25.0% for the nine months ended September 30, 2009 to 21.1% for the nine months ended September 30, 2010.

Asset Management Fees

Asset management fees decreased \$6.5 million, or 40.9%, from \$15.8 million for the nine months ended September 30, 2009 to \$9.3 million for the nine months ended September 30, 2010. Asset management fees include base management fees and incentive fees for our funds and CLOs under management. Base management fees increased \$0.8 million from \$6.3 million for the nine months ended September 30, 2009 to \$7.1 million for the same period in 2010. Incentive fees decreased \$7.3 million from \$9.5 million for the nine months ended September 30, 2009 to \$2.2 million for the same period in 2010. The increase in base management fees was primarily due to increased base management fees at HCS reflecting higher client assets under management during the nine months ended September 30, 2010 compared to the same period in 2009. In addition, the Company recorded base management fees of \$0.3 million for the nine months ended September 30, 2010 relating to a new CLO managed by JMPCA. The decrease in incentive fees reflects a decline of \$7.9 million and \$0.6 million related to Harvest Small Cap Partners and Harvest Opportunity Partners II, respectively, partly offset by a \$1.2 million increase related to NYMT. As a percentage of total net revenues after provision for loan losses, asset management fees decreased from 15.3% for the nine months ended September 30, 2009 to 9.2% for the same period in 2010.

Principal Transactions

Principal transaction revenues decreased \$12.5 million, or 81.3%, from \$15.4 million for the nine months ended September 30, 2009 to \$2.9 million for the same period in 2010. The decrease reflects lower revenues from equity and other securities and from our family of hedge funds and funds of funds. Revenues from equity and other securities decreased \$6.9 million, or 73.4%, from \$9.4 million for the nine months ended September 30, 2009 to \$2.5 million for the same period in 2010, driven by a decrease in unrealized gain/loss on our convertible preferred security and equity security investments in NYMT of \$6.1 million, a decrease in revenues from marketable equity securities of \$2.9 million, partly offset by an increase in revenues from private equity and debt securities of \$2.1 million. Revenues from our family of hedge funds and funds of funds decreased \$5.9 million, from \$6.1 million for the nine months ended September 30, 2009 to \$0.2 million for the same period in 2010.

Table of Contents*Gain on Sale and Payoff of Loans*

Gain on sale and payoff of loans increased \$14.7 million, or 126.7%, from \$11.6 million for the nine months ended September 30, 2009 to \$26.2 million for the same period in 2010, with all of the gain generated at JMP Credit. During the nine months ended September 30, 2010, 49 loans were sold or paid off, including two loans partially sold, resulting in a total net gain of \$26.2 million. Of the total net gain of \$26.2 million, \$22.6 million was related to 35 loan payoffs, where the borrowers repaid the loans at a premium to our carrying value. The remaining \$3.6 million was related to 14 loans, six of which were sold at a premium to our carrying value and eight of which (including two partially sold) were sold at a discount to our carrying value. While we expect further gains in future periods, these revenues are highly unpredictable as we are not actively marketing the loans collateralized by asset-backed securities for sale.

Gain on Repurchase of Asset-Backed Securities Issued

Gain on repurchase of ABS issued decreased from \$4.2 million for the nine months ended September 30, 2009 to zero for the nine months ended September 30, 2010. In May and July 2009, we repurchased in the open market \$0.8 million and \$4.0 million, respectively, of face value of our ABS at a discount resulting in a total gain of \$4.2 million recorded at JMP Credit. This type of gain is not expected to recur at these levels in future periods, unless the market price of our ABS issued falls significantly from our carrying value as of September 30, 2010 and we can take advantage of opportunistic repurchases.

Gain on Bargain Purchase

Upon the acquisition of Cratos by JMP Credit on April 7, 2009, a bargain purchase gain of \$1.2 million was recorded which reflected the difference between the fair value of net assets acquired of \$7.5 million and the GAAP consideration given to the sellers of \$6.3 million. In accordance with the authoritative guidance under GAAP on business combinations, this gain was booked to revenues in the period the acquisition was completed. No such gain was recorded in the nine month period ended September 30, 2010.

Net Dividend Income

Net dividend income decreased \$0.4 million, or 20.4%, from \$1.9 million for the nine months ended September 30, 2009 to \$1.5 million for the same period in 2010. For both periods, net dividend income was primarily related to dividends from our NYMT investment.

Other Income

Other income decreased \$0.1 million, or 5.1%, from \$1.2 million for the nine months ended September 30, 2009 to \$1.1 million for the nine months ended September 30, 2010. For the nine months ended September 30, 2009, other income was primarily comprised of revenues from fee sharing arrangements with, and fees earned to raise capital for, third-party investment partnerships or funds. For the nine months ended September 30, 2010, other income was comprised of the aforementioned revenues plus administrative agency fees at JMP Credit.

Interest Income

Interest income increased \$11.9 million from \$24.2 million for the nine months ended September 30, 2009 to \$36.1 million for the same period in 2009. The increase was primarily related to JMP Credit, which recorded interest income of \$23.6 million and \$35.6 million for the nine months ended September 30, 2009 and 2010, respectively.

At JMP Credit, for the nine months ended September 30, 2010, total interest income of \$35.6 million was mainly comprised of interest earned on our 152 performing loans of \$15.4 million, amortization of purchase discounts and other deferred fees of \$1.2 million and the non-cash amortization of liquidity discounts on our loans of \$19.0 million. Of the \$19.0 million non-cash amortization of liquidity discount, \$3.6 million of liquidity discount accretion was accelerated due to unscheduled principal payments on these loans. The annualized weighted average interest rate on the loans (excluding the liquidity discount accretion) was 4.97% with a spread to weighted average LIBOR of 4.63% for the nine months ended September 30, 2010. The Company did not recognize any interest income, other than the accretion of liquidity discounts, for 11 impaired loans with an aggregate weighted average loan balance of \$58.4 million that were on non-accrual status during the nine months ended September 30, 2010.

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At JMP Credit, for the nine months ended September 30, 2009, total interest income for the nine months ended September 30, 2009 was \$23.6 million. This was comprised of interest earned on our 84 performing loans of \$9.6 million, amortization of purchase discounts and other deferred fees of \$0.6 million and the non-cash amortization of the liquidity discounts on our loans of \$13.4 million. Of the \$13.4 million non-cash amortization of liquidity discount, \$0.4 million of liquidity discount accretion was accelerated due to unscheduled principal payments on these loans. The annualized weighted average interest rate on the loans was 5.10% with a spread to weighted average LIBOR of 4.27% for the nine months ended September 30, 2009. We did not recognize any interest income for the 16 impaired loans with a weighted average loan balance of \$97.8 million that were on non-accrual status during the nine months ended September 30, 2009.

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Interest Expense

Interest expense increased \$7.6 million, or 43.5%, from \$17.5 million for the nine months ended September 30, 2009 to \$25.1 million for the same period in 2010. The increase was primarily related to JMP Credit, which recorded interest expense of \$17.2 million and \$24.5 million for the nine months ended September 30, 2009 and 2010, respectively.

At JMP Credit, for the nine months ended September 30, 2010, interest expense of \$24.5 million was comprised of interest expense on ABS issued of \$3.5 million and non-cash amortization of the liquidity discount on the ABS issued of \$21.0 million. The annualized weighted average cost of funds (excluding the liquidity discount amortization) for the ABS issued during the nine months was 1.08% with a spread to weighted average LIBOR of 0.73%.

At JMP Credit, for the nine months ended September 30, 2009, total interest expense for the nine months was \$17.2 million. This was comprised of \$3.4 million in interest on ABS issued, \$13.7 million in non-cash amortization of the liquidity discount on the ABS issued, and \$0.1 million in interest primarily on the contingent consideration to one of the previous owners of Cratos. The annualized weighted average cost of funds for the ABS issued during the nine months ended September 30, 2009 was 1.54% with a spread to weighted average LIBOR of 0.71%.

Provision for Loan Losses

Provision for loan losses decreased \$4.4 million, or 82.0%, from \$5.4 million for the nine months ended September 30, 2009 to \$1.0 million for the same period in 2010. The decrease was comprised of \$1.0 million related to provision against loans held for investment and \$3.4 million related to provision against loans collateralizing ABS issued. For the nine months ended September 30, 2010, the provision against loans collateralizing ABS issued of \$0.6 million was recorded as pooled reserve against performing loans that were purchased after the Cratos acquisition. For the nine months ended September 30, 2009, the provision against loans collateralizing ABS issued of \$4.0 million was comprised of \$3.8 million of specific reserves on impaired loans, which were recorded in addition to the credit discount recorded at the acquisition of Cratos and \$0.2 million of pooled reserve against performing loans.

Expenses*Compensation and Benefits*

Compensation and benefits, which includes employee payroll, taxes and benefits, performance-based cash bonus and commissions as well as equity-based compensation to our employees and managing directors, decreased from \$70.8 million for the nine months ended September 30, 2009 to \$65.5 million for the nine months ended September 30, 2010.

Employee payroll, taxes and benefits, and consultant fees, increased \$2.2 million, or 9.8%, from \$22.4 million for the nine months ended September 30, 2009 to \$24.6 million for the nine months ended September 30, 2010 primarily due to higher average headcount in 2010.

Performance-based bonus and commission decreased \$6.7 million, or 15.1%, from \$44.5 million for the nine months ended September 30, 2009 to \$37.8 million for the same period in 2010. The decrease was primarily due to a decrease in total net revenues after provision for loan losses from \$103.4 million for the nine months ended September 30, 2009 to \$100.7 million for the same period in 2010. In addition, the Company recorded a performance-based bonus accrual for senior management of \$6.8 million in the nine months ended September 30, 2009 but did not record such accrual in the same period in 2010.

Equity-based compensation decreased \$0.9 million, or 23.1%, from \$3.9 million for the nine months ended September 30, 2009 to \$3.0 million for the same period in 2010 reflecting a decrease in expense related to RSUs granted after the initial public offering of \$0.6 million and a decrease in expense related to RSUs granted in connection with the initial public offering of \$0.3 million. The decrease in expense related to RSUs granted after the initial public offering was primarily due to a \$0.9 million reduction that resulted from the acceleration of the vesting of 1,295,000 RSUs on November 2, 2009, which eliminated the amortization expense on those RSUs for future periods, partly offset by an additional expense recognized on new RSU grants in 2010. The decrease in expense related to RSUs granted in connection with the initial public offering was primarily due to a \$1.0 million decrease from the scheduled vesting of such RSUs in May 2009 and 2010, partly offset by a one-time expense of \$0.7 million recorded in May 2010 when we reduced the estimated forfeiture rate on these RSUs to reflect recent forfeiture experience. The equity-based compensation expense for the nine months ended September 30, 2009 and 2010 included \$2.5 million and \$2.2 million, respectively, recognized for RSUs granted in connection with the initial public offering and \$1.4 million and \$0.8 million, respectively, recognized for RSUs granted after the initial public offering.

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Compensation and benefits as a percentage of net revenues after provision for loan losses decreased from 68.5% for the nine months ended September 30, 2009 to 65.0% for the same period in 2010. Excluding the hiring bonus expense of \$2.9 million and expense related to RSUs of \$3.0 million, compensation and benefits as a percentage of total net revenues after provision for loan losses was 59.0% for the nine months ended September 30, 2010. Excluding expense related to RSUs of \$3.9 million, compensation and benefits as a percentage of total net revenues after provision for loan losses was 64.8% for the nine months ended September 30, 2009.

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Administration expenses increased \$0.8 million, or 22.1%, from \$3.5 million for the nine months ended September 30, 2009 to \$4.3 million for the nine months ended September 30, 2010 primarily due to an increase in conference expense of \$0.5 million, an increase in placement and training cost of \$0.2 million and an increase in regulatory fees of \$0.1 million relating to our broker-dealer entity. As a percentage of total net revenues after provision for loan losses, administration expense increased from 3.4% of total net revenues after provision for loan losses for the nine months ended September 30, 2009 to 4.3% for the same period in 2010.

Brokerage, Clearing and Exchange Fees

Brokerage, clearing and exchange fees decreased \$0.3 million, or 7.5%, from \$4.1 million for the nine months ended September 30, 2009 to \$3.8 million for the nine months ended September 30, 2010. The decrease was primarily due to a decrease in trading volume. As a percentage of total net revenues after provision for loan losses, our brokerage, clearing and exchange fees decreased from 3.9% for the nine months ended September 30, 2009 to 3.7% for the same period in 2010.

Impairment Loss on Purchased Management Contract

On June 11, 2010, the Company agreed to purchase the collateral management contracts for two collateralized loan obligations, or CLOs, from Princeton Advisory Group, Inc. for up to \$5.0 million. The transfers of the contracts were subject to the receipt of certain consents and other conditions. On September 8, 2010, the Company completed the purchase of one of the two management contracts for \$3.8 million, and the contract was transferred to JMPCA. However, since a single investor had previously acquired control of the right to transfer the management contract without cause at any time with 90 days' notice, the Company recorded an impairment charge of \$2.8 million for the nine months ended September 30, 2010. The Company has since restructured the transaction to provide the Company with indemnity from the seller in the amount of \$2.6 million, of which \$1.6 million is uncertain to be realized and \$1.0 million in cash. The indemnity amortizes over a period ending in February 2013. The Company has not been given notice that the management contract will be transferred to another manager and, as long as JMPCA remains the manager, it will continue to earn management fees from the CLO.

Other Expenses

Other expenses increased \$1.4 million, or 14.2%, from \$9.9 million for the nine months ended September 30, 2009 to \$11.3 million for the nine months ended September 30, 2010. The increase was primarily due to an increase in travel and entertainment expense of \$1.0 million, an increase in market data expense of \$0.3 million and an increase in occupancy of \$0.2 million, partly offset by a net decrease of \$0.1 million in other expenses. As a percentage of total net revenues after provision for loan losses, other expenses increased from 9.6% for the nine months ended September 30, 2009 to 11.3% for the same period in 2010.

Net Income (Loss) Attributable to Noncontrolling Interest

Net income attributable to noncontrolling interest increased \$1.0 million from \$1.2 million for the nine months ended September 30, 2009 to \$2.3 million for the nine months ended September 30, 2010. Noncontrolling interest for the nine months ended September 30, 2010 includes the interest of third parties in JMP Credit (through August 6, 2010), Cratos CLO (effective August 6, 2010), HMOP and HGC, partially-owned subsidiary consolidated in our financial statements. Noncontrolling interest for the nine months ended September 30, 2009 relates to the interest of third parties in SPAC and HMOP. SPAC was liquidated on December 31, 2009. Because of the limited partners' substantive kick-out rights, HMOP was not consolidated from January 2, 2009 through April 30, 2009. During the three months ended June 30, 2009, several non-affiliated limited partners redeemed their interest in HMOP, and the remaining limited partners were no longer deemed to have substantive kick-out rights. As a result, the Company consolidated HMOP in its consolidated financial statements effective May 1, 2009. The members of HGC do not have substantive kick-out rights, and therefore, HGC has been consolidated from inception on April 1, 2010.

Provision for Income Taxes

For the nine months ended September 30, 2010 and 2009, we recorded tax expense of \$5.5 million and \$6.5 million, respectively. The effective tax rate for the nine months ended September 30, 2010 and 2009 was 41.7% and 43.3%, respectively.

Financial Condition, Liquidity and Capital Resources

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In the section that follows, we discuss the significant changes in the components of our balance sheet, cash flows and capital and liquidity for the nine months ended September 30, 2010 to demonstrate where our capital is invested and the financial condition of the Company.

Overview

As of September 30, 2010, we had net liquid assets of \$59.0 million, consisting of cash and cash equivalents, proceeds from short sales on deposit, receivable from clearing broker, marketable securities owned, and general partner investments in hedge funds managed by HCS, net of marketable securities sold but not yet purchased, accrued compensation, note payable and noncontrolling interest. We have satisfied our capital and liquidity requirements primarily through the net proceeds from the initial public offering and internally generated cash from operations. Most of our financial instruments, other than loans collateralizing asset-backed securities issued, loans held for investment and asset-backed securities issued, are recorded at fair value or amounts that approximate fair value. At September 30, 2010 and December 31,

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2009, the Company had Level 3 assets (assets whose fair value was determined using unobservable inputs that are not corroborated by market data) of \$24.8 million and \$23.9 million, respectively, which represented 4.1% and 4.2% of total assets, respectively.

Liquidity Considerations Related to Cratos CLO

On April 7, 2009, we invested \$4.0 million of cash and granted \$3.0 million original par amount, with a \$2.3 million estimated fair value, of contingent consideration (a zero coupon note) to acquire 100% of the membership interests and net assets of \$7.5 million of Cratos. In December 2009, we repurchased the contingent consideration for \$1.8 million. As we own 100% of the subordinated securities of the CLO, in accordance with the authoritative guidance under GAAP on accounting for consolidation of variable interest entities, we are the primary beneficiary and are required to consolidate all of the assets and liabilities of the CLO securitization structure even though it is a bankruptcy remote entity with no recourse to us.

Our maximum exposure to loss of capital on the Cratos acquisition is the original April 7, 2009 investment of \$4.0 million plus the \$1.8 million paid to repurchase the contingent consideration, plus any earnings related to JMP Credit since the acquisition date. However, for U.S. federal tax purposes, Cratos CLO is treated as a disregarded entity such that the taxable income earned in the CLO is taxable to us. If the CLO is in violation of certain coverage tests, mainly any of its overcollateralization ratios, residual cash flows otherwise payable to us as owners of the subordinated notes would be required to be used to buy additional collateral or repay indebtedness senior to us in the securitization. This could require us to pay income tax on earnings prior to the residual cash flow distributions to us.

Cratos CLO must comply with certain asset coverage tests, such as tests that restrict the amount of discounted obligations and obligations rated CCC or lower it can hold. During any time the CLO exceeds such a limit, our ability, as the manager of Cratos CLO, to sell assets and reinvest available principal proceeds into substitute assets is restricted. In addition, defaulted obligations, discounted assets (those purchased below 85% of their par value) and assets rated CCC or lower in excess of applicable limits in the CLO's investment criteria are not given full par credit for purposes of calculation of the CLO overcollateralization (OC) tests. Even though we were in compliance with all OC tests on the determination dates in August and May 2010, on the quarterly determination dates in August 2009, November 2009 and February 2010, Cratos CLO was in violation of its Class E OC test. In order to remedy the deficiency, we were required to use \$10.2 million of the CLO's residual cash flows to pay down Class A note holders, rather than distribute the funds to us as owners of the CLO's subordinated notes. If Cratos CLO were to violate the Class E test, or any more senior tests, we would be required to pay down the most senior notes with the residual cash flows until the violation was cured. In the most extreme case, if the CLO were in violation of the most senior OC test, the Class A note holders would have the ability to declare an event of default and cause an acceleration of all principal and interest outstanding on the notes.

For financial reporting purposes, the loans and asset-backed securities of Cratos CLO are consolidated on our balance sheet. The loans are reported at their cost adjusted for amortization of liquidity discount and credit reserves, both of which were recorded at the Cratos acquisition date, purchase discounts and allowance for loan losses. The asset-backed securities are recorded net of liquidity discount only. At September 30, 2010, we had \$373.2 million of loans collateralizing asset-backed securities, net, \$35.1 million of restricted cash and \$1.1 million of interest receivable funded by \$344.2 million of asset-backed securities issued, net, and interest payable of \$0.6 million. These assets and liabilities represented 67.9% of total assets and 73.2% of total liabilities respectively, reported on our consolidated statement of financial condition at September 30, 2010.

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The tables below summarize the loans held by Cratos CLO grouped by range of outstanding balance, industry and Moody's Investors Services, Inc. rating category as of September 30, 2010.

(Dollars in thousands)

Range of Outstanding Balance	Number of Loans	As of September 30, 2010	
		Maturity Date	Total Principal
\$0 - \$500	4	4/2012 - 6/2016	\$ 1,799
\$501 - \$2,000	44	12/2012 - 10/2017	58,311
\$2,001 - \$5,000	85	5/2011 - 6/2017	267,066
\$5,001 - \$10,000	17	3/2012 - 3/2016	114,764
Total	150		\$ 441,940

(Dollars in thousands)

Industry	Number of Loans	As of September 30, 2010	
		Outstanding Balance	% of Outstanding Balance
Healthcare, Education & Childcare	15	\$ 47,158	10.7%
Electronics	8	30,524	6.9%
Personal, Food & Misc Services	8	28,590	6.5%
Retail Store	8	26,578	6.0%
Telecommunications	11	26,172	5.9%
Leisure, Amusement, Motion Pictures & Entertainment	10	22,432	5.1%
Chemicals, Plastics and Rubber	7	22,082	5.0%
Aerospace & Defense	9	21,500	4.9%
Utilities	4	16,077	3.6%
Hotels, Motels, Inns and Gaming	5	15,755	3.6%
Cargo Transport	3	14,542	3.3%
Printing & Publishing	5	13,889	3.1%
Personal & Non-Durable Consumer Products	4	13,464	3.0%
Finance	5	13,203	3.0%
Beverage, Food & Tobacco	5	13,148	3.0%
Farming & Agriculture	3	12,901	2.9%
Insurance	2	12,778	2.9%
Personal Transportation	4	11,236	2.5%
Ecological	4	10,986	2.5%
Machinery (Non-Agriculture, Non-Construction & Non-Electronic)	3	9,505	2.1%
Diversified/Conglomerate Mfg	3	9,154	2.1%
Broadcasting & Entertainment	2	8,256	1.9%
Containers, Packaging and Glass	3	7,300	1.7%
Diversified/Conglomerate Service	2	5,979	1.4%
Mining, Steel, Iron and Non-Precious Metals	3	5,484	1.2%
Buildings and Real Estate	2	4,987	1.1%
Textiles & Leather	3	4,789	1.1%
Grocery	3	3,828	0.9%
Oil & Gas	2	3,403	0.8%
Automobile	2	3,301	0.7%
Home and Office Furnishings, Housewares and Durable Consumer Products	1	1,546	0.3%
Diversified Natural Resources, Precious Metals and Minerals	1	1,393	0.3%
Total	150	\$ 441,940	100.0%

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(Dollars in thousands)

As of September 30, 2010

Moody's Rating Category	Number of Loans	Outstanding Balance	% of Outstanding Balance
Baa3	1	\$ 5,849	1.3%
Ba1	8	28,417	6.4%
Ba2	18	51,999	11.8%
Ba3	27	63,517	14.4%
B1	34	89,839	20.3%
B2	42	116,520	26.4%
B3	12	46,521	10.5%
Caa1	4	24,142	5.5%
Caa2	1	7,756	1.8%
Caa3	1	3,563	0.8%
Ca	2	3,817	0.8%
Total	150	\$ 441,940	100.0%

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Other Liquidity Considerations

As of September 30, 2010 the Company had a revolving and term loan credit facility with City National Bank (CNB), entered into on August 3, 2006. On July 1, 2010, the Company drew down the remaining balance of \$13.9 million to increase the revolving loan to \$21.0 million at September 30, 2010. The Company's outstanding term loan with CNB was \$5.6 million at September 30, 2010. Both the revolving and term loan bear interest at LIBOR plus 2.25%. On May 29, 2010 the Company entered into an interest rate cap with the Lender to effectively lock in or fix the interest rate on its revolving line of credit and term loan from July 1, 2010 through maturity. The interest rate cap will allow the Company to receive payments from the counterparty in the event that LIBOR plus 2.25% exceeds 3.75%, limiting the interest rate on the outstanding balance of the line of credit and term loan to such rate. The cap had an initial notional principal amount of \$27.1 million (as the remaining balance available under the revolving line of credit was drawn down on July 1, 2010), indexed to LIBOR and amortizes in accordance with the amortization of the revolving line of credit and term loan. The notional principal amount of the cap was \$26.6 million at September 30, 2010.

The timing of bonus compensation payments to our employees may significantly affect our cash position and liquidity from period to period. While our employees and managing directors are generally paid semi-monthly during the year, bonus compensation, which makes up a larger portion of total compensation, is generally paid once a year during the first two months of the following year. In February 2010, we paid out \$38.7 million of cash bonuses for 2009, excluding employer payroll tax expense.

The Company currently intends to declare quarterly cash dividends on all outstanding shares of common stock. The Company currently does not plan to pay dividends on unvested shares of restricted stock. In March, May and August 2010, the Company's board of directors declared a quarterly cash dividend of \$0.01 per share, \$0.015 per share and \$0.015 per share of common stock, respectively, which the Company paid in April, June and September 2010 for the fourth quarter of 2009, the first quarter of 2010 and the second quarter of 2010, respectively.

During the three months ended September 30, 2010 and 2009, the Company repurchased 168,739 and 324 shares, respectively, of the Company's common stock at an average price of \$6.48 per share and \$6.40 per share, respectively, for an aggregate purchase price of \$1.1 million and \$2,074, respectively. Of the total shares repurchased during the three months ended September 30, 2010 and 2009, 953 shares and 324 shares, respectively, were deemed to have been repurchased in connection with employee stock plans, whereby the Company's shares were issued on a net basis to employees for the payment of applicable statutory withholding taxes and therefore such withheld shares are deemed to be purchased by the Company.

We had total restricted cash of \$45.7 million comprised primarily of \$35.1 million of restricted cash at JMP Credit on September 30, 2010. This balance was comprised of \$3.6 million in interest received from loans in the CLO and \$31.5 million in principal cash. The interest and fees will be restricted until the next payment date to note holders of the CLO. The principal restricted cash will be used to buy additional loans.

Because of the nature of our investment banking and sales and trading businesses, liquidity is important to us. Accordingly, we regularly monitor our liquidity position, including our cash and net capital positions. We believe that our available liquidity and current level of equity capital, combined with the net proceeds to us from the initial public offering and funds anticipated to be provided by our operating activities, will be adequate to meet our liquidity and regulatory capital requirements for at least the next twelve months. If circumstances required it, we could improve our liquidity position by discontinuing repurchases of the Company's common stock, halting cash dividends on our common stock and reducing cash bonus compensation paid.

JMP Securities, our wholly-owned subsidiary and a registered securities broker-dealer, is subject to the net capital requirements of the SEC's Uniform Net Capital Rule. We use the basic method permitted by the Uniform Net Capital Rule to compute net capital, which generally requires that the ratio of aggregate indebtedness to net capital shall not exceed 15 to 1. SEC regulations also provide that equity capital may not be withdrawn or cash dividends paid if certain minimum net capital requirements are not met. JMP Securities had net capital of \$24.9 million and \$45.3 million, which were \$23.9 million and \$43.7 million in excess of the required net capital of \$1.0 million and \$1.6 million at September 30, 2010 and December 31, 2009, respectively. JMP Securities' ratio of aggregate indebtedness to net capital was 0.47 to 1 and 0.26 to 1 at September 30, 2010 and December 31, 2009, respectively.

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A condensed table of cash flows for the nine months ended September 30, 2010 and 2009 is presented below.

<i>(Dollars in thousands)</i>	Nine Months Ended September 30,		Change from	
	2010	2009	\$	%
Cash flows used in operations	\$ (25,518)	\$ 9,635	\$ (35,153)	N/A
Cash flows (used in) provided by investing activities	(359)	2,751	(3,110)	N/A
Cash flows provided by (used in) financing activities	7,813	(3,440)	11,253	N/A
Total cash flows	\$ (18,064)	\$ 8,946	\$ (27,010)	N/A

<i>(Dollars in thousands)</i>	Nine Months Ended September 30,		Change from	
	2009	2008	\$	%
Cash flows provided by (used in) operations	\$ 9,635	\$ (24,575)	\$ 34,210	N/A
Cash flows provided by (used in) investing activities	2,751	(26,809)	29,560	N/A
Cash flows (used in) provided by financing activities	(3,440)	2,208	(5,648)	N/A
Total cash flows	\$ 8,946	\$ (49,176)	\$ 58,122	N/A

Cash Flows for the Nine months Ended September 30, 2010

Cash decreased by \$18.1 million during the nine months ended September 30, 2010, primarily as a result of cash used in operating activities.

Our operating activities used \$25.5 million of cash from the net income of \$7.6 million, adjusted for the cash used in the change in operating assets and liabilities of \$17.5 million and non-cash revenue and expense items of \$15.6 million. The non-cash revenue and expense items included gain on sale and payoff of loans of \$26.2 million, net amortization expense of liquidity discount of \$2.0 million and impairment loss on purchased management contract of \$2.8 million.

Our investing activities used \$0.4 million of cash primarily due to funding of loans collateralizing ABS of \$224.1 million, purchases of other investments of \$20.2 million, purchase of management contract of \$3.8 million and funding of loans held for investments of \$0.5 million, partly offset by cash provided by sales and payoff of loans collateralizing ABS of \$165.2 million, repayments on loans collateralizing ABS of \$59.3 million and sales of other investments of \$24.6 million.

Our financing activities provided \$7.8 million of cash primarily due to proceeds from issuance of note payable of \$18.9 million and capital contributions from noncontrolling interest holders of \$4.5 million, partly offset by repurchase of our common stock for treasury of \$8.3 million, repayment of asset-backed securities issued of \$3.5 million, repayment of a note payable of \$1.3 million, cash dividends paid to stockholders of \$0.9 million and purchase of subsidiary shares from noncontrolling interest holders of \$0.8 million.

Cash Flows for the Nine months Ended September 30, 2009

Cash increased by \$8.9 million during the nine months ended September 30, 2009, primarily as a result of cash provided by operating activities.

Our operating activities provided \$9.6 million of cash from the net income of \$8.5 million, adjusted for the cash provided by the change in operating assets and liabilities of \$14.5 million, reduced by non-cash revenue and expense items of \$13.4 million. The non-cash revenue and expense items included gains on sale and payoff of loans of \$11.6 million, gain on repurchase of asset-backed securities issued of \$4.2 million, gain on bargain purchase of \$1.2 million and provision for loan losses of \$5.4 million.

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Our investing activities provided \$2.8 million primarily due to cash provided by sales of loans collateralizing ABS of \$46.2 million, repayments on loans collateralizing ABS of \$32.0 million, net change in restricted cash reserved for lending activities of \$14.7 million, and sales of other investments of \$12.3 million, offset by cash used in funding of loans collateralizing ABS of \$93.6 million and purchases of other investments of \$7.5 million.

Our financing activities used \$3.4 million of cash primarily due to two draw downs on our revolving note with City National Bank (CNB) totaling \$6.1 million, offset by repayment of a note payable of \$1.0 million, repayment of one of the draw downs of \$4.0 million and a net increase in ABS of \$3.2 million.

We had \$28.5 million of restricted cash at JMP Credit on September 30, 2009. This balance was comprised of \$3.1 million in interest and fees received from loans in the CLO and \$25.4 million in principal cash. The interest and fees will be restricted until the next payment date to note holders of the CLO. The principal restricted cash will be used to buy additional loans or pay down CLO notes.

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Contractual Obligations

Our contractual obligations have not materially changed from those reported in our Annual Report on Form 10-K for the year ended December 31, 2009.

Off-Balance Sheet Arrangements

In connection with Cratos CLO, the Company had unfunded commitments to lend of \$0.1 million and standby letters of credit of \$0.3 million as of September 30, 2010. These commitments do not extend to JMP Group Inc.

Unfunded commitments are agreements to lend to a borrower, provided that all conditions have been met. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since certain commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each borrower's creditworthiness on a case by case basis.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance by a borrower to a third party. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on balance sheet instruments. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to borrowers.

We had no other material off-balance sheet arrangements as of September 30, 2010. However, as described below under **Qualitative and Quantitative Disclosures About Market Risk** **Credit Risk**, through indemnification provisions in our clearing agreements with our clearing broker, customer activities may expose us to off-balance sheet credit risk, which we seek to mitigate through customer screening and collateral requirements.

Qualitative and Quantitative Disclosures About Market Risk

Market Risk

Market risk represents the risk of loss that may result from the change in value of a financial instrument due to fluctuations in its market price. Market risk may be exacerbated in times of trading illiquidity when market participants refrain from transacting in normal quantities and/or at normal bid-offer spreads. Our exposure to market risk is directly related to our role as a financial intermediary in customer trading and to our market making and investment activities. Market risk is inherent in financial instruments.

Even though we trade in equity securities as an active participant in both listed and OTC markets and we make markets in over two hundred stocks, we typically maintain very few securities in inventory overnight to minimize market risk. In addition, we act as agent rather than principal whenever we can and may use a variety of risk management techniques and hedging strategies in the ordinary course of our trading business to manage our exposures. Historically, in connection with our principal investments in publicly-traded equity securities, we have engaged in short sales of equity securities to offset the risk of purchasing other equity securities. In the future, we may utilize other hedging strategies such as equity derivative trades, although we have not engaged in derivative transactions in the past.

In connection with our sales and trading business, management evaluates the amount of risk in specific trading activities and determines our tolerance for such activities. Management monitors risks in its trading activities by establishing limits for the trading desk and reviewing daily trading results, inventory aging, and securities concentrations. Typically, market conditions are evaluated and transaction details and securities positions are reviewed. These activities seek to ensure that trading strategies are within acceptable risk tolerance parameters. Activities include price verification procedures, position reconciliations and reviews of transaction bookings. We believe these procedures, which stress timely communications between traders, trading management and senior management, are important elements of the risk management process.

Equity Price and Liquidity Risk

Equity price and liquidity risk represents the potential loss in value due to adverse changes in the level of market activity and volatility of equity prices. We are exposed to equity price and liquidity risk through our trading activities in both listed and OTC equity markets and security

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positions in our principal investment portfolio. We attempt to reduce the risk of loss inherent in our inventory of equity securities by establishing position limits, monitoring inventory turnover and entering into hedging transactions designed to mitigate our market risk profile.

Interest Rate Risk

Interest rate risk represents the potential loss from adverse changes in market interest rates. As we may hold U.S. Treasury securities and other fixed income securities and may incur interest-sensitive liabilities from time to time, we are exposed to interest rate risk arising from changes in the level and volatility of interest rates and in the shape of the yield curve. We believe we have mitigated our interest rate risk on our interest-sensitive liabilities, except liabilities of Cratos CLO, by entering into an interest rate cap through the maturity of these liabilities.

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Credit Risk

Our broker-dealer subsidiary places and executes customer orders. The orders are then settled by an unrelated clearing organization that maintains custody of customers' securities and provides financing to customers.

Through indemnification provisions in our agreement with our clearing organization, customer activities may expose us to off-balance-sheet credit risk. We may be required to purchase or sell financial instruments at prevailing market prices in the event a customer fails to settle a trade on its original terms or in the event cash and securities in customer margin accounts are not sufficient to fully cover customer obligations. We seek to control the risks associated with brokerage services for our customers through customer screening and selection procedures as well as through requirements that customers maintain margin collateral in compliance with governmental and self-regulatory organization regulations and clearing organization policies.

Credit risk also includes the risk that we will not fully collect the principal we have invested in loans held for investment and loans collateralizing asset-backed securities issued due to borrower defaults. While we feel that our origination and underwriting of these loans will help to mitigate the risk of significant borrower defaults on these loans, we cannot assure you that all borrowers will continue to satisfy their payment obligations under these loans, thereby avoiding default.

Inflation Risk

Because our assets are generally liquid in nature, they are not significantly affected by inflation. However, the rate of inflation affects such expenses as employee compensation and communications charges, which may not be readily recoverable in the prices of services we offer. To the extent inflation results in rising interest rates and has other adverse effects on the securities markets, it may adversely affect our combined financial condition and results of operations in certain businesses.

Critical Accounting Policies and Estimates

The preparation of our consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and of revenues and expenses during the reporting periods. We base our estimates and assumptions on historical experience and on various other factors that we believe are reasonable under the circumstances. The use of different estimates and assumptions could produce materially different results. For example, if factors such as those described in *Risk Factors* cause actual events to differ from the assumptions we used in applying the accounting policies, our results of operations, financial condition and liquidity could be adversely affected.

Our significant accounting policies are summarized in Note 2 to our consolidated financial statements included elsewhere in this report. On an ongoing basis, we evaluate our estimates and assumptions, particularly as they relate to accounting policies that we believe are most important to the presentation of our financial condition and results of operations. We regard an accounting estimate or assumption to be most important to the presentation of our financial condition and results of operations where:

the nature of the estimate or assumption is material due to the level of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change; and

the impact of the estimate or assumption on our financial condition or operating performance is material.

Using the foregoing criteria, we consider the following to be our critical accounting policies:

Valuation of Financial Instruments

The Company adopted the amended accounting principles related to fair value measurements as of January 1, 2008, which establishes a consistent framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures with respect to fair value measurements. The amended accounting principles related to fair value measurement apply to all financial instruments that are being measured and reported on a fair value basis. This includes those items currently reported in marketable securities owned, at fair value, other investments and marketable securities sold, not yet purchased, at fair value on the consolidated statements of financial condition. Fair

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value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Most of our financial instruments, other than loans collateralizing asset-backed securities issued, loans held for investment and asset-backed securities issued, are recorded at fair value or amounts that approximate fair value. Marketable securities owned, Other investments, including warrant positions and investments in partnerships in which HCS is the general partner, and Marketable securities sold, but not yet purchased, are stated at fair value, with related changes in unrealized appreciation or depreciation reflected in the line item Principal transactions in the accompanying Consolidated Statements of Operations.

Fair value our financial instruments is generally obtained from quoted market prices, broker or dealer price quotations, or alternative pricing methodologies that we believe offer reasonable levels of price transparency. To the extent that certain financial instruments trade infrequently or are non-marketable securities and, therefore, do not have readily determinable fair values, we estimate the fair value of these instruments using various pricing models and the information available to us that we deem most relevant. Among the factors considered by us

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in determining the fair value of financial instruments are discounted anticipated cash flows, the cost, terms and liquidity of the instrument, the financial condition, operating results and credit ratings of the issuer or underlying company, the quoted market price of publicly traded securities with similar duration and yield, the Black-Scholes Options Valuation methodology adjusted for active market and other considerations on a case-by-case basis and other factors generally pertinent to the valuation of financial instruments.

Marketable securities owned and securities sold, but not yet purchased, consist of U.S. listed and over-the-counter (OTC) equity securities. Other investments include investments in private investment funds managed by us or our affiliates, as well as cash paid for a subscription in a private investment fund managed by a third party. Such investments held by non-broker-dealer entities are accounted for under the equity method based on our share of the earnings (or losses) of the investee. The financial position and operating results of the private investment funds are generally determined on an estimated fair value basis. Generally, securities are valued (i) at their last published sale price if they are listed on an established exchange or (ii) if last sales prices are not published, at the highest closing bid price (for securities held long) and the lowest closing asked price (for short positions) as recorded by the composite tape system or such principal exchange, as the case may be. Where the general partner determines that market prices or quotations do not fairly represent the value of a security in the investment fund's portfolio (for example, if a security is a restricted security of a class that is publicly traded) the general partner may assign a different value. The general partner will determine the estimated fair value of any assets that are not publicly traded.

Also included in other investments are NYMT convertible preferred stock, warrants on public and private common stock, private equity securities owned by HGC and JMP Capital and an interest rate cap derivative instrument. The valuation of the investment in NYMT convertible preferred stock is based on a fair value estimate using the Black-Scholes credit adjusted valuation model on Bloomberg. The warrants on public and private common stock are generally received as a result of investment banking transactions and are valued at estimated fair value as determined by management. Warrants owned are valued at the date of issuance and marked-to-market as unrealized gains and losses until realized. Estimated fair value is determined using the Black-Scholes Options Valuation methodology adjusted for active market and other considerations on a case-by-case basis. The fair value of the private equity securities owned by HGC and JMP Capital is determined by the Company using comparable public company metrics discounted for private company market illiquidity. The interest rate cap derivative instrument fair value is determined from counterparty price quotations.

The Company follows the authoritative guidance included in GAAP on the fair value option which provides companies with a choice to report selected financial assets and financial liabilities at fair value. It requires entities to display the fair value of those assets and liabilities for which the company has chosen to use fair value on the face of the balance sheet. The election to use the fair value option is available at specified election dates, such as when an entity first recognizes a financial asset or financial liability or upon entering into a firm commitment. Subsequent changes in fair value must be recorded in the Consolidated Statements of Operations. Additionally, the guidance allows for a one-time election for existing positions upon adoption, with the transition adjustment recorded to beginning retained earnings.

We elected to apply the fair value option to the following financial assets:

Investment in NYMT convertible preferred stock; and

Investment in NYMT common stock

During the three and nine months ended September 30, 2010, the Company recorded unrealized loss of \$0.2 million and \$0.5 million, respectively, on the above investments in NYMT primarily in response to the performance of NYMT's stock during the period.

In certain cases, we may continue to apply the equity method of accounting to those investments which are strategic in nature or are closely related to our principal business activities, where we have a significant degree of involvement in the cash flows or operations of the investee.

Asset Management Investment Partnerships

Investments in partnerships include our general partnership interests in investment partnerships. Such investments are held by our asset management subsidiary and are accounted for under the equity method based on our proportionate share of the earnings (or losses) of the investment partnership. These interests are carried at estimated fair value based on our capital accounts in the underlying partnerships. The net assets of the investment partnerships consist primarily of investments in marketable and non-marketable securities. The underlying investments held by such partnerships are valued based on quoted market prices or estimated fair value if there is no public market. Such estimates of fair value of the partnerships' non-marketable investments are ultimately determined by our affiliate in its capacity as general partner. Due to the inherent uncertainty of valuation, fair values of these non-marketable investments may differ from the values that would have been used had a

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ready market existed for these investments, and the differences could be material. Adjustments to carrying value are made, as required by GAAP, if there are third-party transactions evidencing a change in value. Downward adjustments are also made, in the absence of third-party transactions, if the general partner determines that the expected realizable value of the investment is less than the carrying value.

We earn base management fees from the investment partnerships that we manage generally based on the net assets of the underlying partnerships. In addition, we are entitled to allocations of the appreciation and depreciation in the fair value of the underlying partnerships from our general partnership interests in the partnerships. Such allocations are based on the terms of the respective partnership agreements.

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We are also entitled to receive incentive fee allocations from the investment partnerships when the return exceeds a specified highwater mark or hurdle rate over a defined performance period. Incentive fees are recorded after the quarterly or annual investment performance period is complete and may vary depending on the terms of the fee structure applicable to an investor.

Purchased Management Contract

Purchased management contract relates to the CLO contract the Company purchased from Princeton Advisory Group, Inc. on September 8, 2010 and is included in other assets on the Consolidated Statements of Financial Condition. The purchased management contract is amortized over its estimated life. The Company tests the purchased management contract for impairment whenever events or changes in circumstances suggest that the asset's carrying value may not be fully recoverable. An impairment loss, calculated as the difference between the estimated fair value and the carrying value of the asset, is recognized if the sum of the estimated undiscounted cash flows relating to the asset is less than the corresponding carrying value.

Loans Collateralizing Asset-backed Securities Issued

Loans collateralizing asset-backed securities issued are commercial loans securitized and owned at Cratos CLO. The loans consist of those loans within the CLO securitization structure at the acquisition date of Cratos and loans purchased or originated into the CLO subsequent to the Cratos acquisition date.

Loans acquired during the purchase and resulting consolidation of Cratos were recorded at their fair value as of the acquisition date, which then became the new basis of the loans. Any unamortized deferred fees or costs that existed prior to the acquisition were written off at that date.

For those loans deemed impaired as of the date of the acquisition, the total discount from unpaid principal balance to fair value consists of a nonaccretable credit discount and an accretable liquidity (or market value) discount. For the remaining loans acquired through the purchase of Cratos the discount to fair value was all accretable liquidity discount as the discount was not attributable to credit quality. For both types of loans the accretable portion of the discount is recognized into interest income as an adjustment to the yield of the loan over the contractual life of the loan using the interest method.

The Company continues to estimate the cash flows expected to be collected over the life of the loans acquired through the purchase of Cratos. If, upon subsequent evaluation, the Company believes it is unable to collect all cash flows expected at the acquisition date plus additional cash flows expected to be collected arising from changes in estimate after the acquisition, the loan is considered impaired for purposes of applying the authoritative guidance under GAAP on loss contingencies or, if applicable, the authoritative guidance under GAAP on loan impairment. Loans considered impaired at the acquisition date of Cratos can only continue to be assessed in accordance with the authoritative guidance under GAAP on loan impairment. If based on current information and events, it is probable that there is a significant increase in cash flows previously expected to be collected or if actual cash flows are significantly greater than cash flows previously expected, the Company will first reduce any remaining valuation allowance (or allowance for loan losses) for the loan established after its acquisition for the increase in the present value of cash flows expected to be collected. Then the Company will recalculate the amount of accretable yield for the loan as the excess of the revised cash flows expected to be collected over the sum of (a) the initial investment less (b) cash collected less (c) write-downs plus (d) amount of yield accreted to date. The Company will adjust the amount of accretable yield by reclassification from nonaccretable discount. The adjustment is accounted for as a change in estimate, with the amount of periodic accretion adjusted over the remaining life of the loan. The resulting yield is then used as the effective interest rate in any subsequent accounting.

Loans purchased or originated into Cratos CLO after the acquisition date of Cratos, are stated at the principal amount outstanding net of deferred fees, deferred costs and the allowance for loan losses. Net nonrefundable loan fees and related direct costs associated with the origination or purchase of loans are deferred and included in loans. The net deferred fees or costs are recognized as an adjustment to interest income over the contractual life of the loans using a method which approximates the interest method. Remaining amounts are recognized into income when the related loans are paid off or sold. Any discount from purchased loans is accreted into interest income as a yield adjustment over the contractual life of the loan.

The accrual of interest on loans is discontinued when principal or interest payments are 90 days or more past due or when, in the opinion of management, reasonable doubt exists as to the full collection of principal and/or interest. When loans are placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Any reversals of income from previous years are recorded against the allowance for loan losses. When the Company receives a cash interest payment on a non-accrual loan, it is applied as a reduction of the principal balance. Non-accrual loans are returned to accrual status when the borrower becomes current as to principal and

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interest and have demonstrated a sustained period of payment performance. The amortization of loan fees is discontinued on nonaccrual loans and may be considered for write-off. Depending on the terms of the loan, a fee may be charged upon a prepayment which is recognized in the period of the prepayment.

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Allowance for Loan Losses

The Company maintains an allowance for loan losses that is intended to estimate loan losses inherent in its loan portfolio. A provision for loan losses is charged to expense to establish the allowance for loan losses. The allowance for loan losses is maintained at a level, in the opinion of management, sufficient to offset estimated losses inherent in the loan portfolio as of the date of the financial statements. The appropriateness of the allowance and the allowance components are reviewed quarterly. The Company's estimate of each allowance component is based on observable information and on market and third party data that the Company believes are reflective of the underlying loan losses being estimated.

In accordance with the authoritative guidance under GAAP on loss contingencies, the Company provides a base allowance on a loan by loan basis for loans at JMP Credit that are not impaired and were purchased after the Cratos acquisition. The Company employs internally developed and third party estimation tools for measuring credit risk (loan ratings, probability of default, and exposure at default), which are used in developing an appropriate allowance for loan losses. The Company performs periodic detailed reviews of its loan portfolio to identify risks and to assess the overall collectibility of loans.

In accordance with the authoritative guidance under GAAP on loan impairment, any required impairment allowances are included in the allowance for loan losses. A loan is considered impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. The Company measures impairment of a loan based upon either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price or the fair value of the collateral securing the loan if the loan is collateral dependent, depending on the circumstances and the Company's collection strategy. For those loans held by Cratos at the date of acquisition by JMP Credit, and deemed impaired at that date or a subsequent date, loan loss provisions are calculated considering two further factors. For loans deemed impaired at the date of acquisition if there is a further decline in expected future cash flows, this reduction is recognized as specific loan loss provision in the current quarter in accordance with above. For those loans deemed impaired subsequent to the acquisition date, if the net realizable value is lower than the current carrying value then that reduction from the carrying value is booked as provision for loan losses. Therefore at the date of assessment, if the total discount from unpaid principal balance to carrying value is larger than the expected loss, no provision for loan losses is recognized for those loans acquired at Cratos but deemed impaired subsequent to their acquisition.

Loans which are deemed to be uncollectible are charged off and deducted from the allowance. The provision for loan losses and recoveries on loans previously charged off are added to the allowance.

Asset-backed Securities Issued

Asset-backed securities issued (ABS) were issued to third parties from Cratos CLO securitization structure which the Company consolidates for financial reporting purposes as of the April 7, 2009 acquisition date. At the acquisition date, the ABS were recorded at fair value with a liquidity discount from the principal balance outstanding to the fair value recorded. The liquidity discount is amortized into interest expense over the maturity of the ABS using the interest method.

Legal and Other Contingent Liabilities

We are involved in various pending and potential complaints, arbitrations, legal actions, investigations and proceedings related to our business from time to time. Some of these matters involve claims for substantial amounts, including claims for punitive and other special damages. The number of complaints, legal actions, investigations and regulatory proceedings against financial institutions like us has been increasing in recent years. We have, after consultation with counsel and consideration of facts currently known by management, recorded estimated losses in accordance with authoritative guidance under GAAP on contingencies, to the extent that a claim may result in a probable loss and the amount of the loss can be reasonably estimated. The determination of these reserve amounts requires significant judgment on the part of management and our ultimate liabilities may be materially different. In making these determinations, management considers many factors, including, but not limited to, the loss and damages sought by the plaintiff or claimant, the basis and validity of the claim, the likelihood of successful defense against the claim and the potential for, and magnitude of, damages or settlements from such pending and potential complaints, legal actions, arbitrations, investigations and proceedings, and fines and penalties or orders from regulatory agencies.

If a potential adverse contingency should become probable or resolved for an amount in excess of the established reserves during any period, our results of operations in that period and, in some cases, succeeding periods, could be adversely affected.

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Income Taxes

The Company accounts for income taxes in accordance with the authoritative guidance under GAAP on income taxes which requires the recognition of deferred tax assets and liabilities based upon the temporary differences between the financial reporting and tax bases of assets and liabilities. Valuation allowances are established when necessary to reduce the deferred tax assets when it is more likely than not that a portion or all of the deferred tax assets will not be realized.

The Company adopted the accounting principles related to uncertainty in income taxes on May 16, 2007, the date the Company became subject to federal and state income taxes. Its adoption did not have a material impact on the Company's financial condition or results of operations. Under the guidance, the Company recognizes a tax benefit from an uncertain position only if it is more likely than not that the

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position is sustainable, based solely on its technical merits and consideration of the relevant taxing authority's widely understood administrative practices and precedents. If this threshold is met, the Company measures the tax benefit as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Quantitative and qualitative disclosures about market risk are set forth under the caption "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Quantitative and Qualitative Disclosures About Market Risk."

ITEM 4. Controls and Procedures

Our management, with the participation of the Chairman and Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 ("Exchange Act)) as of the end of the period covered by this report. Based on that evaluation, our Chairman and Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective. There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

ITEM 1 Legal Proceedings

We are involved in a number of judicial, regulatory and arbitration matters arising in connection with our business. The outcome of matters we have been and currently are involved in cannot be determined at this time, and the results cannot be predicted with certainty. 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 financial condition, results of operations and cash flows. We may in the future become involved in additional litigation in the ordinary course of our business, including litigation that could be material to our business. However, we do not believe that we have any material legal or regulatory proceedings currently pending or threatened against us.

We review the need for any loss contingency reserves and establish reserves when, in the opinion of management, it is probable that a matter would result in liability and the amount of loss, if any, can be reasonably estimated. Generally, with respect to matters we are involved in, in view of the inherent difficulty of predicting the outcome of these matters, particularly in cases in which claimants seek substantial or indeterminate damages, it is not possible to determine whether a liability has been incurred or to reasonably estimate the ultimate or minimum amount of that liability until the case is close to resolution, in which case no reserve is established until that time other than for reasonably estimable legal fees and expenses.

ITEM 1A. Risk Factors

The risk factors included in our December 31, 2009 annual report on Form 10-K continue to apply to us, and describe risks and uncertainties that could cause actual results to differ materially from the results expressed or implied by the forward-looking statements contained in this Quarterly Report. There have not been any material changes from the risk factors previously described in our December 31, 2009 annual report on Form 10-K, except for the addition of the following risk factor.

Recently enacted financial reforms and related regulations may negatively affect our business activities, financial position and profitability.

Recent market and economic conditions have led to new legislation and numerous proposals for changes in the regulation of the financial services industry. The U.S. Congress recently approved the Dodd-Frank Wall Street Reform and Consumer Protection Act and the President has signed it into law on July 21, 2010. This legislation makes extensive changes to the laws regulating financial services firms and requires significant rule-making. In addition, the legislation mandates multiple studies, which could result in additional legislative or regulatory action. The legislation and regulation of financial institutions, both domestically and internationally, include calls to increase capital and liquidity requirements; limit the size and types of the activities permitted; and increase taxes on some institutions.

While we are currently assessing the impact that these initiatives will have on our business, they could affect not only us but also certain of our customers. As a result, these new legislative and regulatory changes could affect our revenue, limit our ability to pursue business opportunities, impact the value of assets that we hold, require us to change certain of our business practices, impose additional costs on us, or otherwise adversely affect our businesses. If we do not comply with current or future legislation and regulations that apply to our operations, we may be subject to fines, penalties or material restrictions on our businesses in the jurisdiction where the violation occurred. Accordingly, we cannot provide assurance that any such new legislation or regulation would not have an adverse effect on our business, results of operations, cash flows or financial condition.

Table of Contents**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds**

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

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)
July 1, 2010 to July 31, 2010	167,786	\$ 6.48	167,786	482,322
August 1, 2010 to August 31, 2010		\$		482,322
September 1, 2010 to September 30, 2010	953(2)	\$ 6.28	953	481,369
Total	168,739		168,739	

- (1) A 1.5 million share repurchase program authorized in August and November 2007 was fully executed as of January 18, 2008. On March 10, 2008, March 3, 2009 and May 4, 2010, the Company's board of directors authorized the repurchase of an additional 2.0 million shares during the subsequent eighteen months, the repurchase of an additional 0.5 million shares during the subsequent twelve months, and the repurchase of an additional 1.0 million shares during the subsequent eighteen months, respectively.
- (2) For certain restricted stock units, the number of shares issued upon settlement of the restricted stock units was net of the statutory tax withholding requirements that we paid on behalf of our employees. The total number of shares purchased in September 2010 represents the shares that were not issued to employees in connection with the settlement of restricted stock units, and therefore such shares were deemed to have been purchased by the Company.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. (Removed and Reserved)**ITEM 5. Other Information**

None.

ITEM 6. Exhibits

See Exhibit Index.

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SIGNATURES

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

Date: November 4, 2010

JMP Group Inc.

By: /s/ JOSEPH A. JOLSON
Name: **Joseph A. Jolson**
Title: **Chairman and Chief Executive Officer**

By: /s/ RAYMOND S. JACKSON
Name: **Raymond S. Jackson**
Title: **Chief Financial Officer**

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EXHIBIT INDEX

Exhibit Number	Description
31.1	Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.