

JMP Group Inc.  
Form 10-K  
March 09, 2009  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

(Mark One)

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

For the fiscal year ended December 31, 2008

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)

**Delaware**  
(State or other jurisdiction of

incorporation or organization)

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

(Address of principal executive offices)

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

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

**20-1450327**  
(I.R.S. Employer

Identification No.)

Edgar Filing: JMP Group Inc. - Form 10-K

(Title of Each Class)	(Name of Each Exchange on Which Registered)
Common Stock, par value \$0.001 per share	New York Stock Exchange

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

None

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

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

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

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

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

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer  Smaller Reporting Company

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

The aggregate market value of the common stock held by non-affiliates of the registrant on the last business day of the registrant's most recently completed second fiscal quarter, based upon the closing sale price of the registrant's common stock on June 30, 2008 as reported on The New York Stock Exchange was \$93,657,406.

As of February 27, 2009 there were 20,526,469 shares of the registrant's common stock outstanding.

**Documents incorporated by reference:**

Portions of the registrant's definitive proxy statement to be delivered to stockholders in connection with the 2009 annual meeting of stockholders to be held in June 2009 are incorporated by reference in this Form 10-K.

**Table of Contents**

**TABLE OF CONTENTS**

**PART I**

Item 1.	<u>Business</u>	5
Item 1A.	<u>Risk Factors</u>	14
Item 1B.	<u>Unresolved Staff Comments</u>	35
Item 2.	<u>Properties</u>	35
Item 3.	<u>Legal Proceedings</u>	35
Item 4.	<u>Submission of Matters to a Vote of Security Holders</u>	35

**PART II**

Item 5.	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	36
Item 6.	<u>Selected Financial Data</u>	38
Item 7.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	40
Item 7A.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	69
Item 8.	<u>Financial Statements and Supplementary Data</u>	71
Item 9.	<u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	106
Item 9A.	<u>Controls and Procedures</u>	106
Item 9B.	<u>Other Information</u>	106

**PART III**

Item 10.	<u>Directors, Executive Officers and Corporate Governance</u>	107
Item 11.	<u>Executive Compensation</u>	107
Item 12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	107
Item 13.	<u>Certain Relationships and Related Transactions, and Director Independence</u>	107
Item 14.	<u>Principal Accountant Fees and Services</u>	107

**PART IV**

Item 15.	<u>Exhibits and Financial Statement Schedules</u>	108
----------	---	-----

	<u>Signatures</u>	109
--	-------------------	-----

	<u>Exhibit Index</u>	110
--	----------------------	-----

EX-31.1: CERTIFICATION

EX-31.2: CERTIFICATION

EX-32.1: CERTIFICATION

EX-32.2: CERTIFICATION

**Table of Contents**

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

We make forward-looking statements, as defined by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, in this Form 10-K that are subject to risks and uncertainties. When we use the words will likely result, if, in the event, may, shall, will, believe, anticipate, project, intend, estimate, goal, objective, or similar expressions, we intend to identify forward-looking statements. These forward-looking statements include information about possible or assumed future results of our business, financial condition, liquidity, results of operations, plans and objectives. They also include statements concerning anticipated revenues, income or loss, capital expenditures, dividends, capital structure or other financial terms. The statements we make regarding the following subject matters are forward-looking by their nature:

the opportunity to grow our investment banking and sales and trading businesses because of the prevalent demand for our services in our six target industries;

the opportunity to increase our representation of corporate clients as buyers and to grow our mergers and acquisitions and strategic advisory businesses;

our ability to utilize our expertise to gain new business and benefit from increased trading in the financial services and real estate industries;

the performance of our investment banking and sales and trading businesses because of declining demand for our services in our six target industries;

the possibility of generating stable or growing investment banking revenues due to our ability to engage in multiple types of transactions;

our ability to increase our roles as a co-manager or a lead manager in capital markets transactions;

the growth of our mergers and acquisitions and other strategic advisory business derived from our positions as a lead manager or senior co-manager of public and private securities offerings;

our plans to expand the group of institutional investors to which we market our equity research and sales and trading products and services by increasing the frequency with which we do business with these investors;

the characteristics of the asset management business, including its comparatively high margins, the recurring nature of its fee-based revenues, and its dependence on intellectual capital;

the ongoing emergence of small asset managers and institutional investment managers that rely on outside sources to provide equity research;

a heightened demand for alternative asset management products and services;

## Edgar Filing: JMP Group Inc. - Form 10-K

our plans to hire additional senior research, investment banking and sales/trading professionals;

our ability to increase the number of companies under coverage by our equity research analysts;

our plans to sponsor additional hedge funds and other alternative asset management products;

our ability to increase assets under management and develop new asset management products;

our plans to launch additional hedge fund products, alternative and other asset management collective investment vehicles and structured finance products;

our plans to generate principal investing opportunities from our investment banking and asset management relationships;

our ability to attract and retain top professionals;

plans to grow our businesses both through internal expansion and through strategic investments, acquisitions, or joint ventures;

**Table of Contents**

the past performance of our funds are not indicative of our future performance;

the emergence of investment opportunities that offer attractive risk-adjustment returns on our investable assets;

our ability to take advantage of market opportunities as they arise in 2009 based on the strength of our capital position and the low level of leverage that we have traditionally employed in our business model;

our ability to satisfy our funding needs with existing internal and external financial sources;

the ability of our funds to raise capital in the long and short term;

our ability to depend on follow-on offerings, PIPEs and registered direct offerings to generate corporate finance revenues;

our ability to avoid restrictions imposed by the Investment Company Act of 1940;

that we do not anticipate any tax adjustments that will result in a material adverse affect on the our financial condition;

the impact of Securities and Exchange Commission rules enacted as of September 18, 2008 restricting management s ability to conduct short sales;

the impact of recent pronouncements by the Federal Accounting Standards Board on our financial position or operations;

the impact of existing claims against us on our business or financial condition;

projections of our annual total compensation and benefits as a percentage of revenues;

our intention to declare dividends and our expected dividend rate; and

that we believe that our current level of equity capital will be adequate to meet our liquidity and regulatory capital requirements for the next twelve months.

The forward-looking statements are based on our beliefs, assumptions and expectations of future performance, taking into account the information currently available to us. These forward-looking statements 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 upon our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements. In particular, you should consider the numerous risks provided under Item 1A Risk Factors in this Form 10-K. These risks are not exhaustive. Other sections of this Form 10-K may include additional factors which could adversely impact our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for us to predict all risk factors, nor can we assess the impact of all factors or the effect which any factor, or combination of factors, may have on our business. Actual results may differ materially from those contained in any forward-looking statements.

## Edgar Filing: JMP Group Inc. - Form 10-K

Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. You should not rely upon forward-looking statements as predictions of future events. We undertake no duty to update any of these forward-looking statements after the date of this Form 10-K to conform prior statements to actual results or revised expectations unless otherwise required by law.

---

**Table of Contents**

**Item 1. Business**

**Overview**

We are a full-service investment banking and asset management firm that provides investment banking, sales and trading, and equity research services to corporate and institutional clients and alternative asset management products and services to institutional investors and high net-worth individuals.

We focus our efforts on small and middle-market companies in the following six growth industries: business services, consumer, financial services, healthcare, real estate, and technology. Our specialization in these areas has enabled us to develop recognized expertise and to cultivate extensive industry relationships. As a result, we have established our firm as a key advisor for our corporate clients, a trusted resource for institutional investors, and an effective investment manager for our asset management clients. We currently serve clients nationwide from our headquarters in San Francisco and from additional offices in New York, Boston, Chicago and Atlanta.

We provide our corporate clients with a wide variety of services, including strategic advice and capital raising solutions, sales and trading support, and equity research coverage. We provide institutional investors with capital markets intelligence and objective, informed investment recommendations about individual equities that are not widely followed. We believe that our concentration on small and middle-market companies, as well as our broad range of product offerings, positions us as a leader in what has traditionally been an underserved and high-growth market.

The selection of our six target industries, the development of multiple products and services and the establishment of our three revenue-producing business lines—investment banking, equity sales and trading, and asset management—has created a diversified business model, especially when compared to that of our more specialized competitors. We have been able to balance more volatile revenue streams derived from our investment banking business and our incentive-based asset management fees with the more stable revenue streams tied to sales and trading commissions and base asset management fees. In addition, our target industries have historically performed, in certain respects, counter-cyclically to one another, allowing us to win business and generate revenues in various economic and capital markets conditions.

**Principal Business Lines**

We conduct our primary business activities through three wholly-owned subsidiaries: JMP Securities LLC ( JMP Securities ), our broker-dealer operation; Harvest Capital Strategies LLC ( HCS ), our asset management arm—an SEC-registered investment adviser that changed its name to HCS from JMP Asset Management LLC as of September 29, 2008; and JMP Capital LLC ( JMP Capital ), wholly owned by HCS and our vehicle for making certain principal investments.

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. JMP Securities provides equity research, sales and trading to institutional brokerage clients and capital raising and strategic advisory services to corporate clients. As of December 31, 2008, JMP Securities had 170 full-time employees, including 30 in equity research, 55 in sales and trading, 51 in investment banking and 34 in operations and administration.

HCS is a registered investment adviser under the Investment Advisers Act of 1940, as amended, and provides investment management services for sophisticated investors through investment partnerships and other entities managed by HCS. During the fiscal year ended December 31, 2008, HCS actively managed a family of four hedge funds, two funds of hedge funds and two externally advised REITs. In addition, during 2008 HCS,



## **Table of Contents**

acting through JMP Capital, has made principal investments in the form of loans and lines of credit to private companies and investment vehicles. As of December 31, 2008, HCS had 21 full-time employees.

As of January 2, 2009, all of the assets within JMP Realty Trust, which was one of our externally advised REITs, were transferred to Harvest Mortgage Opportunities Partners, which is a new hedge fund managed by HCS. Because owning what we view as attractive investment opportunities in the current market, such as distressed mortgage assets, would make it difficult for us to maintain REIT status, we decided to conduct such investment strategies in a hedge fund structure on an ongoing basis. Accordingly, as of January 2, 2009, HCS actively manages a family of five hedge funds, two funds of hedge funds and one externally advised REIT (NYMT, in which we also have an investment, discussed in more detail under Asset Management within this section).

### ***Investment Banking***

Our investment banking professionals provide capital raising, mergers and acquisitions transaction and other strategic advisory services to corporate clients. Dedicated industry coverage groups serve each of our six target industries, enabling our investment bankers to develop expertise in specific markets and to form close relationships with corporate executives, private equity investors, venture capitalists and other key industry participants. We offer our clients a high level of attention from senior personnel and have designed our organizational structure so that the investment bankers who are responsible for securing and maintaining client relationships also actively participate in providing all related transaction execution services to those clients.

By focusing consistently on our target sectors—business services, consumer, financial services, healthcare, real estate, and technology—we have developed a comprehensive understanding of the unique challenges and demands involved in executing corporate finance and strategic advisory assignments in these sectors. A significant portion of our corporate finance revenues is earned from small and mid-capitalization public companies, and the balance is earned from private companies. Some of our clients retain us for our advisory and capital raising capabilities during an accelerated growth phase as a private company and then continue to work with us through an initial public offering or company sale process. We maintain exceptional client focus both during and following a transaction, leading to a true advisory relationship and a pattern of assisting companies with multiple transactions.

### ***Corporate Finance***

We assist our publicly traded and privately held corporate clients with capital raising activities, which include the underwriting of a wide range of securities, including common, preferred and convertible securities. Our public equity underwriting capabilities include initial public offerings and follow-on equity offerings. We also act as an agent in private placements of equity and debt securities and arrange private investments in public equity (PIPE) transactions as well as privately negotiated, registered direct stock offerings on behalf of our public company clients. We typically place securities with our client base of institutional investors, private equity and venture capital funds and high net-worth individuals.

Because our corporate clients are generally considered high-growth companies, they are frequently in need of new capital. Many of our client relationships develop early, when a client company is still private, in which case we may facilitate private placements of the clients' securities. Thereafter, if our client prepares for an initial public offering, we are generally considered to act as an underwriter of that stock offering. Our ability to structure innovative private offerings and to identify the likely buyers of such offerings makes us a valuable advisor for many small and middle-market companies, as does our industry specialization. We expect that, while the environment for initial public offerings may not be consistently favorable in the future, we should be able to depend on follow-on offerings, PIPEs, registered direct offerings and private placements to continue to generate corporate finance revenues.

## **Table of Contents**

### *Mergers and Acquisitions and Other Strategic Advisory*

We work with corporate clients on a broad range of key strategic matters, including mergers and acquisitions, divestitures and corporate restructurings, valuations of businesses and assets, and fairness opinions and special committee assignments. Because we serve clients at various stages of their corporate development from emerging growth companies to mature private and public companies the values of these transactions range in size.

We provide our advice to senior executives and boards of directors of client companies in connection with transactions that are typically of significant strategic and financial importance to these companies. We believe that our success as a strategic advisor stems from our ability to structure and execute complex transactions that create long-term stockholder value.

Because of our focus on innovative and fast-growing companies, we are most often an advisor in company sale transactions, although we are taking steps to create an equilibrium in our advisory business and expect, in addition, to represent corporate clients as buyers increasingly over time. We believe that our position as a lead manager or senior co-manager of public and private equity offerings will facilitate the growth of our mergers and acquisitions and strategic advisory businesses, as companies that have been issuers of securities become more mature and pursue acquisitions or other exit events for their investors.

### *Sales and Trading*

Our sales and trading operation distributes our equity research product and communicates our proprietary investment recommendations to our institutional investors. In addition, our sales and trading staff executes equity trades on behalf of our clients and sells the securities of companies for which we act as an underwriter.

We have established a broad institutional client base rooted in longstanding relationships, which have been developed through a consistent focus on the investment and trading objectives of our clients. Our sales and trading professionals work closely with our equity research staff to provide insight and differentiated investment advice to more than 550 institutional clients nationwide.

We believe that our sales and trading clients turn to us for timely, differentiated investment advice. Our equity research features proprietary themes and actionable ideas about industries and companies that are not widely evaluated by many other investment banks without our middle-market emphasis. In recent years, many investment banks have reduced their equity research coverage and market making activities dedicated to companies with market capitalizations below certain thresholds. Additionally, with the recent failure or consolidation of several very large investment banking firms, the amount of market-making activity, liquidity and research coverage provided by broker-dealers for smaller stocks has significantly decreased. However, we continue to commit sales and trading resources to smaller-capitalization companies with the belief that institutional investors require and value such specialized knowledge and service.

Our sales and trading personnel are also central to our ability to market equity offerings and provide after-market support. Our equity capital markets group manages the syndication, marketing, execution and distribution of equity offerings. Our syndicate activities include managing the marketing and order-taking process for underwritten transactions and conducting after-market stabilization and initial market making. Our syndicate staff is also responsible for developing and maintaining relationships with the syndicate departments of other investment banks. Our corporate and venture services group manages share repurchase programs, structured buying and selling programs, and sales of restricted securities for corporate clients and financial sponsors.

### *Equity Research*

Our research department is charged with developing proprietary investment themes, anticipating secular and cyclical changes, and producing action-oriented reports that will assist our clients with their investment

**Table of Contents**

decisions. Our analysts cultivate primary sources of information in order to refine their quantitative and qualitative assessments. Our objective is to provide clients with a clear understanding of industry-specific and company-specific issues that can impact their portfolio returns.

Our equity research focuses on our six target industries – business services, consumer, financial services, healthcare, real estate and technology – and on the following sectors underlying each industry:

**Business Services**

Business and Professional Services

Financial Processing and Outsourcing

**Consumer**

Lifestyle Retailing and Products

**Financial Services**

Commercial Finance

Consumer Finance

Mortgage Finance

Specialty Finance

**Healthcare**

Biotechnology

Healthcare Services

Medical Devices

**Real Estate**

Hotels and Resorts

Housing

Housing Supply Chain

Property Services

Real Estate Technology

**Technology**

Clean Technology

Communications  
Equipment

Internet

Semiconductors

Software

As of December 31, 2008, our research department included 16 senior research analysts providing investment recommendations on 200 public companies. Approximately 72% of the stocks under coverage had market capitalizations of less than \$1.0 billion and were divided among our target sectors as follows:

## **Table of Contents**

During their careers, a number of our analysts have received industry recognition for the quality of their research and their stock picking ability, ranking high in polls conducted by the Wall Street Journal, Institutional Investor, Forbes/StarMine and Greenwich Associates. While many larger firms have restructured their research departments due to economic and regulatory pressures and have significantly reduced coverage of companies below certain market-capitalization thresholds, we continue to devote the majority of our resources to smaller-capitalization companies. The number of investment funds and the total assets under management committed to small-cap and mid-cap stocks has grown considerably during the last decade. However, managers of these funds are now presented with ever fewer sources of independent investment research. We continue to provide objective investment recommendations on small and middle-market companies, and we believe that our institutional investor clients depend on us for this informed, fundamental research.

### ***Asset Management***

Through HCS, during 2008 we actively managed a family of four hedge funds, two funds of hedge funds and two externally advised REITs. As of December 31, 2008, we had a total of \$443.0 million in client assets under management (including assets of employees and portfolio managers) and had an additional \$41.3 million of our own capital invested in these vehicles. In addition, we had invested \$13.1 million of our own capital in a portfolio of equity securities managed by HCS and \$2.5 million in funds managed by third parties.

In January 2008, the Company and certain affiliated entities completed the acquisition of 1.0 million shares of Series A Cumulative Redeemable 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, at a price per share of \$20.00, for a total of \$20.0 million. The investment was comprised of \$5.0 million by JMP Group Inc., \$5.0 million by certain funds managed by HCS, and \$10.0 million from JMP Realty Trust. In February 2008, JMP Group Inc. purchased NYMT common stock for an aggregate amount of \$4.5 million in a \$60.0 million private investment in public equity ( PIPE ) transaction executed by NYMT. In addition, we have entered into an advisory agreement between HCS and NYMT to manage certain non-agency assets.

The objective of our multiple strategies is to diversify both revenue and risk while maintaining the attractive economics of the alternative asset model. We view asset management as an attractive business due to its high margins and the recurring nature of its fee-based revenues as well as its dependence on intellectual capital, which we believe is less susceptible to competitive threats from larger financial institutions.

In the course of advising clients on strategic or private capital raising transactions, our investment bankers may identify instances in which we could commit our own capital to transactions for which we are acting as an agent. In addition, opportunities to deploy equity and debt capital are frequently brought to the attention of our asset management professionals. As a result, in the past we have made, and expect that in the future we may make, principal investments in selected cases and may be able to earn attractive returns on the capital committed.

**Table of Contents**

The following table represents certain information regarding the investment returns, net asset values and fee structures of the hedge funds, funds of hedge funds, and REITs managed by HCS as of December 31, 2008.

**Summary of Hedge Funds, Funds of Hedge Funds and REITs**

(dollars in thousands, as of and for the year ended December 31, 2008)

	TWR (1)	Net Asset Value (NAV)	JMP Group Share of NAV	Annual Management Fee (%)	Annual Management Fee (\$)	Incentive Fee (%)	Incentive Hurdle	Incentive Fee (\$)
<b>Hedge Funds (2)</b>								
Harvest Opportunity Partners II	(1.3)%	\$ 62,169.2	\$ 7,760.1	2.0%(3)	\$ 685.8	20%(5)	None	\$ 38.8
Harvest Small Cap Partners	19.4%	234,051.6	13,780.7	2.0%(3)	2,852.7	20%(5)	None	5,856.1
Harvest Consumer Partners	1.9%	5,521.9	2,407.1	1.5%(3)	27.7	20%(5)	None	2.0
Harvest Technology Partners	7.2%	11,581.6	5,818.2	1.5%(3)	37.2	20%(5)	None	21.7
		\$ 313,324.3	\$ 29,766.1		\$ 3,603.4			\$ 5,918.6
<b>Funds of Hedge Funds (2)</b>								
JMP Masters Fund	(21.7)%	\$ 96,037.4	\$ 2,701.0	1.0%(3)	\$ 904.6	5.0%(5)	None	\$ 33.6
						or	or	
						20%(6)	10%	
JMP Emerging Masters Fund	(11.0)%	10,633.3	977.1	1.5%(3)	104.3	10%(5)	None	9.3
		\$ 106,670.7	\$ 3,678.1		\$ 1,008.9			\$ 42.9
<b>REITs</b>								
JMP Realty Trust Inc. (9)	N/A	\$ 15,829.3	\$ 7,841.8	1.5%(4)	\$ 257.4	25%(7)	Greater of 7.5%	\$
							or 2.0% plus	
							10-year	
							Treasury rate	
NYMT	N/A	\$ 48,413.8	N/A	1.5%(4)	\$ 664.9	25%(8)	Greater of 8.0%	\$
							or 2.0% plus	
							10-year	
							Treasury rate	
		\$ 64,243.1	\$ 7,841.8		\$ 922.3			\$
<b>Total</b>		<b>\$ 484,238.1</b>	<b>\$ 41,286.0</b>		<b>\$ 5,534.6</b>			<b>\$ 5,961.5</b>

(1) Time-weighted rate of return, or TWR for the hedge funds and funds of hedge funds. TWR is a measure of the compound rate of growth in a portfolio and eliminates the effect of varying cash inflows by assuming a single investment at the beginning of a period and measuring the growth or loss of market value to the end of that period.

## Edgar Filing: JMP Group Inc. - Form 10-K

- (2) None of the hedge funds and funds of hedge funds are registered under the Investment Company Act of 1940.
- (3) Expressed as a percentage of net asset value.
- (4) Expressed as a percentage of stockholders' equity.
- (5) Expressed as a percentage of the total returns of the funds subject to a highwater mark.
- (6) Expressed as a percentage of total returns in excess of the hurdle rate.
- (7) Equal to the product of (a) the incentive fee percentage multiplied by (b) the difference by which (i) a specified measure of earnings exceeds (ii) JMP Realty Trust's equity multiplied by the incentive fee hurdle return.
- (8) Equal to the product of (a) the incentive fee percentage multiplied by (b) the difference by which (i) a specified measure of earnings exceeds (ii) NYMT's equity multiplied by the incentive fee hurdle return.
- (9) In January 2009 all of the assets of JMP Realty Trust were transferred to Harvest Mortgage Opportunities Partners, a hedge fund managed by HCS.

### **Industry Concentration in Financial Services and Real Estate Sectors**

Although we have taken significant steps since 2001 to diversify and broaden our industry focus, two of JMP's core franchises remain centered on the specialty finance and real estate industries. These two industries have suffered considerably since the second half of 2007 as continuing turmoil has roiled the U.S. economy and the financial services and real estate sectors, in particular. Nevertheless, we believe that we have been negotiating this difficult period effectively and believe that market conditions in these sectors may work to our advantage if we are able to leverage our expertise to gain new business in the future.

## **Table of Contents**

Before we undertook our diversification efforts, our investment banking business generated 100.0% of its revenues from the financial services and homebuilding sectors. In 2008, however, 63.0% of investment banking revenues were derived from these sectors. Our additional focus on industries such as software, Internet, life sciences, medical devices and healthcare services has counterbalanced our efforts in our original industry groups. In addition to broadening our industry concentration, we have worked in recent years to expand our investment banking product offerings so that we are not solely dependent on the public capital markets for our business opportunities. In 2008, we derived 66.5% of investment banking revenues from sources other than the public capital markets, including M&A and strategic advisory fees and private capital raising fees.

## **Competition**

All areas of our business are subject to a high level of competition. The principal competitive factors influencing our business include the ability of our professionals, industry expertise, client relationships, business reputation, market focus and product capabilities, and quality and price of our products and services.

Since the mid-1990s, there has been substantial consolidation among U.S. and global financial institutions. In particular, a number of large commercial banks, insurance companies and other diversified financial services firms have merged with other financial institutions or have established or acquired broker-dealers. During 2008, we witnessed the unprecedented, nearly simultaneous failure or near-collapse of a number of very large financial institutions, which led to the acquisition of several of the most sizeable U.S. investment banking firms, consolidating the financial industry to an even greater extent. Currently, our competitors are other investment banks, brokerage firms, merchant banks and financial advisory firms. Our focus on our six target industries also subjects us to direct competition from a number of specialty securities firms and smaller investment banking boutiques that specialize in providing services to these industries.

The industry trend toward consolidation has significantly increased the capital base and geographic reach of many of our competitors. Although our larger and better-capitalized competitors have suffered from the dislocation in the investment banking and financial services industry, they may be more able than we are to respond to changes in the investment banking industry, to recruit and retain skilled professionals, to finance acquisitions, to fund internal growth and to compete for market share generally. Many of these firms have the ability to offer a wider range of products than we do, including loans, deposit-taking and insurance, in addition to brokerage, asset management and investment banking services, all of which may enhance their competitive position relative to us. These firms also have the ability to support investment banking and securities products with commercial banking, insurance and other financial services revenues in an effort to gain market share, which could result in downward pricing pressure in our businesses. In particular, the trend in the equity underwriting business toward multiple book runners and co-managers has increased the competitive pressure in the investment banking industry and may lead to lower average transaction fees.

We face a high level of competition in recruiting and retaining experienced and qualified professionals. The success of our business and our ability to continue to compete effectively will depend significantly upon our continued ability to retain and incentivize our existing professionals and attract new professionals.

As we seek to expand our asset management business, we face competition in the pursuit of investors for our investment funds, in the identification and completion of investments in attractive portfolio companies or securities, and in the recruitment and retention of skilled asset management professionals.

## **Employees**

As of December 31, 2008, we had 191 employees, including 64 managing directors. We believe that our managing directors and other professionals have been attracted to our firm because of our focused industry coverage, our entrepreneurial culture and our dedication to providing growth companies and growth investors with exceptional client service, objective advice and innovative solutions. None of our employees are subject to any collective bargaining agreements, and we believe our relationship with our employees to be satisfactory.

---

## **Table of Contents**

### **Risk Management and Compliance**

As an investment bank, risk is an inherent part of our business. Global markets, by their nature, are prone to uncertainty and subject participants to a variety of risks. The principal risks we face are market, liquidity, credit, legal, reputational and operational risks. We believe we apply quantitative analysis and sound practical judgment before engaging in transactions to ensure that appropriate risk mitigants are in place. We accomplish this objective by carefully considering the amount of capital allocated to each of our businesses, establishing trading limits, setting credit limits for individual counterparties and, to the extent that we make principal investments, committing capital to transactions where we believe we have the advantage of industry or company-specific expertise. As part of our principal investment activities, we conduct due diligence before making any significant capital commitment in order to assess the risk inherent in a transaction and all significant investments must be approved by our Investment Committee and/or board of directors. All of our participations in underwritten offerings are required to be approved by our Commitment Committee. Our focus is balancing risk and return. We seek to achieve adequate returns from each of our businesses commensurate with the risks they assume. Nonetheless, the effectiveness of our approach to managing risks can never be completely assured. For example, unexpected large or rapid movements or disruptions in one or more markets or other unforeseen developments could have an adverse effect on our results of operations and financial condition. The consequences of these developments can include losses due to adverse changes in our principal investments, inventory values, decreases in the liquidity of trading positions, increases in our credit exposure to customers and counterparties, and increases in general systemic risk.

### **Regulation**

As participant in the financial services industry, we are subject to complex and extensive regulation of most aspects of our business by U.S. federal and state regulatory agencies, self-regulatory organizations, and securities exchanges. The laws, rules and regulations comprising the regulatory framework are constantly changing, as are the interpretation and enforcement of existing laws, rules and regulations. The effect of any such changes cannot be predicted and may direct the manner of our operations and affect our profitability.

Our broker-dealer subsidiary, JMP Securities, is subject to regulations governing every aspect of the securities business, including the execution of securities transactions, capital requirements, record-keeping and reporting procedures, relationships with customers, including the handling of cash and margin accounts, the experience and training requirements for certain employees, and business procedures with firms that are not members of these regulatory bodies.

JMP Securities is registered as a securities broker-dealer with the SEC and is a member of the Financial Industry Regulatory Authority ( FINRA ). The FINRA is a self-regulatory body composed of members such as our broker-dealer subsidiary that have agreed to abide by the rules and regulations of the FINRA. The FINRA may expel, fine and otherwise discipline member firms and their employees. JMP Securities is also licensed as a broker-dealer in each of the 50 states, requiring us to comply with the laws, rules and regulations of each state. Each state may revoke the license to conduct a securities business, fine and otherwise discipline broker-dealers and their employees.

JMP Securities is also subject to the SEC s Uniform Net Capital Rule, Rule 15c3-1, which may limit our ability to make withdrawals of capital from our broker-dealer subsidiary. The Uniform Net Capital Rule sets the minimum level of net capital a broker-dealer must maintain and also requires that a portion of its assets be relatively liquid. In addition, JMP Securities is subject to certain notification requirements related to withdrawals of excess net capital.

We are also subject to the USA PATRIOT Act of 2001, which imposes obligations regarding the prevention and detection of money-laundering activities, including the establishment of customer due diligence and customer verification, and other compliance policies and procedures. The conduct of research analysts is also the subject of rule-making by the SEC, the FINRA and the federal government through the Sarbanes-Oxley Act.



## **Table of Contents**

These regulations require certain disclosures by, and restrict the activities of, research analysts and broker-dealers, among others. Failure to comply with these requirements may result in monetary, regulatory and, in the case of the USA PATRIOT Act, criminal penalties.

Our asset management subsidiary, HCS, is an SEC-registered investment adviser, and accordingly subject to regulation by the SEC. Requirements under the Investment Advisors Act includes record-keeping, advertising and operating requirements, and prohibitions on fraudulent activities.

Various regulators, including the SEC, the FINRA and state securities regulators and attorneys general, are conducting both targeted and industry-wide investigations of certain practices relating to the financial services industry, including marketing, sales practices, valuation practices, asset managers, and market and compensation arrangements. These investigations, which have been highly publicized, have involved mutual fund companies, broker-dealers, hedge funds, investors and others.

In addition, the SEC staff has conducted studies with respect to soft dollar practices in the brokerage and asset management industries and proposed interpretive guidance regarding the scope of permitted brokerage and research services in connection with soft dollar practices.

## **Accounting, Administration and Operations**

Our accounting, administration and operations personnel are responsible for financial controls, internal and external financial reporting, compliance with regulatory and legal requirements, office and personnel services, management information and telecommunications systems and the processing of our securities transactions. We use a third party service provider for payroll processing and our clearing operations are currently performed by Ridge Clearing & Outsourcing Solutions, Inc. All of our data processing functions are performed by our management information systems personnel. We believe that our continued future growth will require implementation of new and enhanced communications and information systems and training of our personnel or the hiring of an outsourced provider to operate such systems. Any difficulty or significant delay in the implementation or operation of new systems or the training of personnel could harm our ability to manage growth.

## **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 shareholders 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 annual report.

## **Table of Contents**

### **Item 1A. Risk Factors Risks Related to Our Business**

**Current trends in the global financial markets have negatively impacted our ability to generate business and revenues and may cause significant fluctuations in our stock price.**

The stock and credit markets have been experiencing extreme volatility and disruption for more than twelve months. In particular, during the fourth quarter of 2008, the market volatility and disruption have reached unprecedented levels. Concerns over the availability and the cost of credit, the U.S. mortgage market, a declining real estate market, volatile energy prices, consumer confidence, unemployment, and geopolitical issues have contributed to this increased volatility and have diminished expectations for the economy and the markets in the future. Many economists are now predicting that the U.S. economy, and possibly the global economy, may enter into a prolonged recession or depression as a result of the current economic turmoil. The markets have produced downward pressure on stock prices and credit availability has contracted significantly for issuers in general. These conditions have adversely affected some of our principal investments activities, and may contribute to increased investor redemptions of our assets under management. We have suffered a downturn in our investment banking business due to reduced activity by businesses in capital raising transactions and declines in their stock prices and we cannot assure you that the financial markets will stabilize in the near future. The number of our investment banking transactions has fallen from an average of 74 per annum from 2005 through 2007 to 35 in 2008.

The continuation or worsening of current market conditions may cause us to face some or all of the following risks:

Our opportunity to act as underwriter or placement agent could be adversely affected by a reduction in the number and size of capital raising transactions or by competing government sources of equity.

The number and size of mergers and acquisitions transactions or other strategic advisory services where we act as adviser could be adversely affected by continued uncertainties in valuations related to asset quality and creditworthiness, volatility in the equity markets, and diminished access to financing.

The market downturn could lead to a decline in the volume of transactions that we execute for our customers and, therefore, to a decline in the revenue we receive from commissions and spreads.

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

We may experience losses or write downs in the realizable value of our principal investments due to the inability of companies we invest in to repay their borrowings.

Our access to liquidity and the capital markets could be limited, preventing us from making principal investments and restricting our sales and trading businesses.

We may incur unexpected costs or losses as a result of the bankruptcy or other failure of companies for which we have performed investment banking services to honor ongoing obligations such as indemnification or expense reimbursement agreements.

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

## Edgar Filing: JMP Group Inc. - Form 10-K

As an introducing broker to clearing firms, we are responsible to the clearing firm and could be held liable for the defaults of our customers, including losses incurred as the result of a customer's failure to meet a margin call. Although we review credit exposure to specific customers, default risk may arise from events or circumstances that are difficult to detect or foresee. When we allow customers to purchase securities on margin, we are subject to risks inherent in extending credit. This risk increases

---

**Table of Contents**

when a market is rapidly declining and the value of the collateral held falls below the amount of a customer's indebtedness. If a customer's account is liquidated as the result of a margin call, we are liable to our clearing firm for any deficiency.

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

The market downturn could result in lower prices for securities, which may result in reduced management fees calculated as a percentage of assets under management.

Market declines could increase claims and litigation, including arbitration claims from customers.

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

Government intervention may not succeed in stabilizing the financial and credit markets and may have negative consequences for our business.

It is difficult to predict how long the current economic conditions will continue, whether they will continue to deteriorate and which of our business lines will continue to be adversely affected. If one or more of the foregoing risks occurs, our revenues are likely to decline and, if we were unable to reduce expenses at the same pace, our profit margins would erode.

***There can be no assurance that recently enacted legislation authorizing the U.S. government to inject capital into financial institutions will help stabilize the U.S. financial system.***

On October 3, 2008, the Emergency Economic Stabilization Act of 2008, or EESA, was enacted in response to the financial crises affecting the banking system and financial markets and going concern threats to investment banks and other financial institutions. Pursuant to the EESA and its related programs, the Troubled Asset Relief Program and the Capital Purchase Program, the U.S. Treasury has the authority to, among other things, purchase up to \$700 billion of certain assets, securities and other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets. There can be no assurance, however, that the EESA and its related programs will have an impact on the financial markets, including the extreme levels of volatility and limited credit availability currently being experienced. The failure of the EESA and its related programs to help stabilize the financial markets and a continuation or worsening of current financial market conditions could materially and adversely affect our business, financial condition, results of operations, and the trading price of our common stock.

***We focus principally on specific sectors of the economy, and deterioration in the business environment in these sectors or a decline in the market for securities of companies within these sectors could harm our business.***

We focus principally on six target industries: business services, consumer, financial services, healthcare, real estate, and technology. Volatility in the business environment in these industries or in the market for securities of companies within these industries could adversely affect our financial results and the market value of our common stock. In 2008, the business environment for companies in some of these industries has been subject to unprecedented levels of volatility, and our financial results have consequently been subject to significant variations from prior years. Over the last four years, the mix of our investment banking revenues has shifted from over 70% combined in financial services and real estate (slightly weighted in favor of the real estate sector) to in excess of 50% of total investment banking revenues in financial services alone in 2008. The life sciences sector has risen to 20% of total investment banking revenues in 2008 with the remaining 30% approximately of revenues being evenly split amongst real estate, technology, healthcare, business services and

## **Table of Contents**

consumer sectors. The market for securities in each of our target industries may also be subject to industry-specific risks. For example, we have research, investment banking and principal investments focused in the areas of financial services, real estate and mortgage-related securities. During 2008, several banks and securities firms in the United States and elsewhere have failed or have been acquired by other financial institutions, often in distressed sales. In addition, declines in the housing market, with falling home prices and increasing foreclosures, have adversely affected the credit performance of mortgage loans and have resulted in material write downs of asset values by financial institutions.

As an investment bank focused principally on specific growth sectors of the economy, we also depend significantly on private company transactions for sources of revenues and potential business opportunities. Most of these private company clients are initially funded and controlled by venture capital funds and private equity firms. To the extent that the pace of these private company transactions slows or the average transaction size declines due to a decrease in venture capital and private equity financings, difficult market conditions in our target industries or other factors, our business and results of operations may be harmed.

Underwriting and other corporate finance transactions, strategic advisory engagements and related sales and trading activities in our target industries represent a significant portion of our business. This concentration of activity in our target industries exposes us to the risk of declines in revenues in the event of downturns in these industries.

***Our ability to retain our senior professionals and recruit additional professionals is critical to the success of our business, and our failure to do so may adversely affect our reputation, business, results of operations and financial condition.***

Our people are our most valuable resource. Our ability to obtain and successfully execute the transactions that generate a significant portion of our revenues depends upon the reputation, judgment, business generation capabilities and project execution skills of our senior professionals, particularly our managing directors and the members of our executive committee. The reputations and relationships of our senior professionals with our clients are a critical element in obtaining and executing client engagements. Turnover in the investment banking industry is high and we encounter intense competition for qualified employees from other companies in the investment banking industry as well as from businesses outside the investment banking business, such as hedge funds and private equity funds. To the extent we continue to have annual compensation and benefits expense targets, we may not be able to retain our professionals or recruit additional professionals at compensation levels that are within our target range for compensation and benefits expense. If we were to lose the services of any of our investment bankers, senior equity research, sales and trading professionals, asset managers, or executive officers to a new or existing competitor or otherwise, we may not be able to retain valuable relationships and some of our clients could choose to use the services of a competitor instead of our services. If we are unable to retain our senior professionals or recruit additional professionals, our reputation, business, results of operations and financial condition will be adversely affected. The recent consolidation of the large investment banking institutions and resulting layoffs has provided significant hiring opportunities for us to increase the quality of our investment banking platform and may lead to new opportunities in targeted markets such as the healthcare sector. However this may lead to increased overhead and annual compensation and benefits expense targets and even if we successfully recruit senior professionals, we may not be able to improve our profitability.

***We face strong competition from larger firms, some of which have greater resources and name recognition than we do, which may impede our ability to grow our business.***

The investment banking industry is intensely competitive, and we expect it to remain so. We compete on the basis of a number of factors, including client relationships, reputation, the abilities of our professionals, market focus and the relative quality and price of our services and products. We have experienced intense price competition in our various businesses. Pricing and other competitive pressures in investment banking, including the trends toward multiple book runners, co-managers and multiple financial advisors handling transactions, could adversely affect our revenues, even if the size and number of our investment banking transactions may increase.

---

## **Table of Contents**

We are a relatively small investment bank with 191 employees as of December 31, 2008, and revenues of \$76.6 million for the year ended December 31, 2008. Many of our competitors have a broader range of products and services, greater financial and marketing resources, larger customer bases, greater name recognition, more senior professionals to serve their clients' needs, greater global reach and more established relationships with clients than we have. These larger and better capitalized competitors may be better able to respond to changes in the investment banking industry, compete for skilled professionals, finance acquisitions, fund internal growth and compete for market share generally. These firms have the ability to support investment banking with commercial banking, insurance and other financial services in an effort to gain market share, which has resulted, and could further result, in pricing pressure in our businesses. In particular, the ability to provide commercial financing has become an important advantage for some of our larger competitors and, because we do not provide such financing, we may be unable to compete as effectively for clients in a significant part of the investment banking industry. In addition, if the number of capital markets and financial advisory transactions continues to decline in response to current economic conditions, larger investment banking firms may seek to enter into engagements with smaller companies and for smaller transactions that traditionally would have been considered too small for these firms.

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

### ***We face strong competition from middle-market investment banks.***

We compete with specialized investment banks to provide financial and investment banking services to small and middle-market companies. Middle market investment banks provide access to capital and strategic advice to small and middle-market companies in our target industries. We compete with those investment banks on the basis of a number of factors, including client relationships, reputation, the abilities of our professionals, market focus and the relative quality of our products and services. Competition in the middle-market may further intensify if larger Wall Street investment banks expand their focus to this sector of the market. Increased competition could reduce our market share from investment banking services and our ability to generate fees at historical levels.

### ***Our stock price has been volatile and it may continue to be volatile in the future.***

The market price of our common stock could be subject to significant fluctuations due to factors such as:

changes in book value due to principal investment valuations;

actual or anticipated fluctuations in our financial condition or results of operations;

failure to meet the expectations of securities analysts;

a decline in the stock prices of peer companies;

a discount in the trading multiple of our common stock relative to that of common stock of certain of our peer companies due to perceived risks associated with our smaller size;

the success or failure of potential acquisitions, our operating strategies and our perceived prospects and those of the financial services industry in general; and

the realization of any of the other risks described in this section.

Declines in the price of our common stock may adversely affect our ability to recruit and retain key employees, including our managing directors and other key professional employees. In addition, we may not be able to access the capital markets for future principal transactions.



---

**Table of Contents**

***Our financial results from investment banking activities may fluctuate substantially from period to period, which may impair our stock price.***

We have experienced, and expect to experience in the future, significant variations from period to period in our revenues and results of operations from investment banking activities. Future variations in investment banking revenues may be attributable in part to the fact that our investment banking revenues are typically earned upon the successful completion of a transaction, the timing of which is uncertain and beyond our control. In most cases, we receive little or no payment for investment banking engagements that do not result in the successful completion of a transaction. As a result, our business is highly dependent on market conditions as well as the decisions and actions of our clients and interested third parties. For example, a client's acquisition transaction may be delayed or terminated because of a failure to agree upon final terms with the counterparty, failure to obtain necessary regulatory consents or board or stockholder approvals, failure to secure necessary financing, adverse market conditions or unexpected financial or other problems in the business of a client or a counterparty. If the parties fail to complete a transaction on which we are advising or an offering in which we are participating, we will earn little or no revenue from the contemplated transaction. In addition, we pay significant expenses related to a contemplated transaction regardless of whether or not the contemplated transaction generates revenues. This risk may be intensified by our focus on growth companies in the business services, consumer, financial services, healthcare, real estate and technology industries, which have been adversely affected by the current economic turmoil. According to data from Dealogic, investment banking transactions in the U.S. have decreased significantly in 2008 compared to 2007, from 8,500 mergers and acquisitions transactions in 2007 to 6,600 in 2008, and from 739 capital raising transactions in 2007 to 306 in 2008. Our investment banking revenues would be adversely affected in the event that this trend continues. As a result, we may not achieve steady and predictable earnings on a quarterly basis, which could in turn adversely affect our stock price.

Further, because a significant portion of our revenue is derived from investment banking fees and commissions, severe market fluctuations, weak economic conditions, a decline in stock prices, trading volumes or liquidity could significantly harm our profitability in the following ways:

the number and size of transactions for which we provide underwriting and merger and acquisition advisory services may decline;

the value of the securities we hold in inventory as assets, which we often purchase in connection with market-making and underwriting activities, may decline; and

the volume of trades we would execute for our clients may decrease.

To the extent our clients, or counterparties in transactions with us, are more likely to suffer financial setbacks in a volatile stock market environment, our risk of loss during these periods would increase.

***Our corporate finance and strategic advisory engagements are singular in nature and do not generally provide for subsequent engagements.***

Our investment banking clients generally retain us on a short-term, engagement-by-engagement basis in connection with specific corporate finance, merger and acquisition transactions and other strategic advisory services, rather than on a recurring basis under long-term contracts. As these transactions are typically singular in nature and our engagements with these clients may not recur, we must seek new engagements when our current engagements are successfully completed or are terminated. As a result, high activity levels in any period are not necessarily indicative of continued high levels of activity in any subsequent period. If we are unable to generate a substantial number of new engagements that generate fees from new or existing clients, our business, results of operations and financial condition could be adversely affected.

***Pricing and other competitive pressures may impair the revenues of our sales and trading business.***

We derive a significant portion of our revenues from our sales and trading business, which accounted for 47%, 36% and 35% of our revenues for the years ended December 31, 2008, 2007 and 2006 respectively. Along



---

**Table of Contents**

with other investment banking firms, we have experienced intense price competition in this business in recent years. In particular, the ability to execute trades electronically and through alternative trading systems has increased the downward pressure on trading commissions and spreads. We expect this trend toward alternative trading systems and downward pricing pressure in the business to continue. We believe we may experience competitive pressures in these and other areas in the future as some of our competitors seek to obtain market share by competing on the basis of price or by using their own capital to facilitate client trading activities. In addition, we face pressure from our larger competitors, which may be better able to offer a broader range of complementary products and services to clients in order to win their trading business. As we are committed to maintaining and improving our comprehensive research coverage in our target sectors to support our sales and trading business, we may be required to make substantial investments in our research capabilities to remain competitive. If we are unable to compete effectively in these areas, the revenues of our sales and trading business may decline, and our business, results of operations and financial condition may be harmed.

Some of our large institutional sales and trading clients in terms of brokerage revenues have entered into arrangements with us and other investment banking firms under which they separate payments for research products or services from trading commissions for sales and trading services, and pay for research directly in cash, instead of compensating the research providers through trading commissions (referred to as "soft dollar" practices). In addition, we have entered into certain commission sharing arrangements in which institutional clients execute trades with a limited number of brokers and instruct those brokers to allocate a portion of the commission directly to us or other broker-dealers for research or to an independent research provider. If more of such arrangements are reached between our clients and us, or if similar practices are adopted by more firms in the investment banking industry, it may further increase the competitive pressures on trading commissions and spreads and reduce the value our clients place on high quality research. Conversely, if we are unable to make similar arrangements with other investment managers that insist on separating trading commissions from research products, volumes and trading commissions in our sales and trading business also would likely decrease.

***Larger and more frequent capital commitments in our trading and underwriting businesses increase the potential for significant losses.***

There is a trend toward larger and more frequent commitments of capital by financial services firms in many of their activities. For example, in order to win business, investment banks are increasingly committing to purchase large blocks of stock from publicly traded issuers or significant stockholders, instead of the more traditional marketed underwriting process in which marketing is typically completed before an investment bank commits to purchase securities for resale. We may participate in this trend and, as a result, we may be subject to increased risk. Furthermore, we may suffer losses as a result of the positions taken in these transactions even when economic and market conditions are generally favorable for others in the industry.

We may increasingly commit our own capital as part of our trading business to facilitate client sales and trading activities. The number and size of these transactions may adversely affect our results of operations in a given period. We may also incur significant losses from our sales and trading activities due to market fluctuations and volatility in our results of operations. To the extent that we own assets, i.e., have long positions, in any of those markets, a downturn in the value of those assets or in those markets could result in losses. Conversely, to the extent that we have sold assets we do not own, i.e., have short positions, in any of those markets, an upturn in those markets could expose us to potentially large losses as we attempt to cover our short positions by acquiring assets in a rising market.

***The asset management business is intensely competitive.***

Over the past several years, the size and number of asset management funds, including hedge funds and private equity funds, has continued to increase. If this trend continues, it is possible that it will become increasingly difficult for our funds to raise capital. More significantly, the allocation of increasing amounts of capital to alternative investment strategies by institutional and individual investors leads to a reduction in the size

---

**Table of Contents**

and duration of pricing inefficiencies. Many alternative investment strategies seek to exploit these inefficiencies and, in certain industries, this drives prices for investments higher, in either case increasing the difficulty of achieving targeted returns. In addition, if interest rates were to rise or there were to be a prolonged bull market in equities, the attractiveness of our funds relative to investments in other investment products could decrease. Competition is based on a variety of factors, including:

investment performance;

investor perception of the drive, focus and alignment of interest of an investment manager;

quality of service provided to and duration of relationship with investors;

business reputation; and

level of fees and expenses charged for services.

During 2008, the hedge fund industry in general suffered significant investment losses. It is estimated (according to a Credit Suisse Hedge Fund Index January 2009 report) that the industry lost approximately 29% of its assets, or \$582 billion, in 2008. Of this amount, approximately \$149 billion was due to redemptions by investors. This was the first time since 2002 that the hedge fund industry had seen net asset outflows. How long this lack of confidence in the performance of hedge funds will continue remains to be seen, however it is possible that it will become increasingly difficult for our funds to raise capital in the short term.

We compete in the asset management business with a large number of investment management firms, private equity fund sponsors, hedge fund sponsors and other financial institutions. A number of factors serve to increase our competitive risks, as follows:

investors may develop concerns that we will allow a fund to grow to the detriment of its performance;

some of our competitors have greater capital, lower targeted returns or greater sector or investment strategy specific expertise than we do, which creates competitive disadvantages with respect to investment opportunities;

some of our competitors may perceive risk differently than we do which could allow them either to outbid us for investments in particular sectors or, generally, to consider a wider variety of investments;

there are relatively few barriers to entry impeding new asset management firms, and the successful efforts of new entrants into our various lines of business, including former star portfolio managers at large diversified financial institutions as well as such institutions themselves, will continue to result in increased competition; and

other industry participants in the asset management business continuously seek to recruit our best and brightest investment professionals away from us.

These and other factors could reduce our earnings and revenues and adversely affect our business. In addition, if we are forced to compete with other alternative asset managers on the basis of price, we may not be able to maintain our current base management and incentive fee structures. We have historically competed primarily on the performance of our funds, and not on the level of our fees relative to those of our competitors. However, there is a risk that fees in the alternative investment management industry will decline, without regard to the historical performance of

a manager, including our managers. Fee reductions on our existing or future funds, without corresponding decreases in our cost structure, would adversely effect our revenues and distributable earnings.

***Poor investment performance may decrease assets under management and reduce revenues from and the profitability of our asset management business.***

Revenues from our asset management business are primarily derived from asset management fees. Asset management fees are comprised of base management and incentive fees. Management fees are typically based on

---

**Table of Contents**

assets under management, and incentive fees are earned on a quarterly or annual basis only if the return on our managed accounts exceeds a certain threshold return, or highwater mark, for each investor. We will not earn incentive fee income during a particular period, even when a fund had positive returns in that period, if we do not generate cumulative performance that surpasses a highwater mark. If a fund experiences losses, we will not earn incentive fees with regard to investors in that fund until its returns exceed the relevant highwater mark.

In addition, investment performance is one of the most important factors in retaining existing investors and competing for new asset management business. Investment performance may be poor as a result of the current or future difficult market or economic conditions, including changes in interest rates or inflation, terrorism or political uncertainty, our investment style, the particular investments that we make, and other factors. Poor investment performance may result in a decline in our revenues and income by causing (i) the net asset value of the assets under our management to decrease, which would result in lower management fees to us, (ii) lower investment returns, resulting in a reduction of incentive fee income to us, and (iii) investor redemptions, which would result in lower fees to us because we would have fewer assets under management.

To the extent our future investment performance is perceived to be poor in either relative or absolute terms, the revenues and profitability of our asset management business will likely be reduced and our ability to grow existing funds and raise new funds in the future will likely be impaired.

***The historical returns of our funds may not be indicative of the future results of our funds.***

The historical returns of our funds should not be considered indicative of the future results that should be expected from such funds or from any future funds we may raise. Our rates of returns reflect unrealized gains, as of the applicable measurement date, which may never be realized due to changes in market and other conditions not in our control that may adversely affect the ultimate value realized from the investments in a fund. The returns of our funds may have also benefited from investment opportunities and general market conditions that may not repeat themselves, and there can be no assurance that our current or future funds will be able to avail themselves of profitable investment opportunities. Furthermore, the historical and potential future returns of the funds we manage also may not necessarily bear any relationship to potential returns on our common stock.

***Our asset management clients may generally redeem their investments, which could reduce our asset management fee revenues.***

Our asset management fund agreements generally permit investors to redeem their investments with us after an initial lockup period during which redemptions are restricted or penalized. However, any such restrictions may be waived by us. Thereafter, redemptions are permitted at quarterly or annual intervals. If the return on the assets under our management does not meet investors' expectations, investors may elect to redeem their investments and invest their assets elsewhere, including with our competitors. Our management fee revenues correlate directly to the amount of assets under our management; therefore, redemptions have caused our fee revenues to decrease. To the extent that investors in our funds redeem additional investments in the future, our asset management fees will decrease. Investors may decide to reallocate their capital away from us and to other asset managers for a number of reasons, including poor relative investment performance, changes in prevailing interest rates which make other investments more attractive, changes in investor perception regarding our focus or alignment of interest, dissatisfaction with changes in or a broadening of a fund's investment strategy, changes in our reputation, and departures or changes in responsibilities of key investment professionals. For these and other reasons, the pace of redemptions and corresponding reduction in our assets under management could accelerate. In the future, redemptions could require us to liquidate assets under unfavorable circumstances, which would further harm our reputation and results of operations.

***We invest our own principal capital in equities and debt that expose us to a significant risk of capital loss.***

We use a portion of our own capital in a variety of principal investment activities, each of which involves risks of illiquidity, loss of principal and revaluation of assets. At December 31, 2008, our gross principal

---

**Table of Contents**

investments represented \$48.0 million invested in other investments, of which \$33.4 million was related to our family of funds, \$11.7 million to New York Mortgage Trust, Inc. ( NYMT ) convertible preferred and common stock and \$0.3 million was related to warrants. We also had \$19.8 million invested in marketable securities in long positions and \$5.7 million invested through short positions on marketable securities. In addition, during 2008 we invested \$8.8 million in private companies through loans and lines of credit, which as of December 31, 2008, is carried at \$5.7 million net of reserves for credit losses. The companies in which we invest may rely on new or developing technologies or novel business models, or concentrate on markets which are or may be disproportionately impacted by pressures in the financial services and/or mortgage and real estate sectors, have not yet developed and which may never develop sufficiently to support successful operations, or their existing business operations may deteriorate or may not expand or perform as projected. As a result, we may suffer losses from our principal investment activities.

***We may make principal investments that have limited liquidity, which may reduce the return on those investments to our stockholders.***

We may purchase equity securities and, to a lesser extent, debt securities, in venture capital, seed and other high risk financings of early-stage, pre-public or mezzanine stage , distressed situations and turnaround companies, as well as funds or other collective investment vehicles. We risk the loss of capital we have invested in these activities.

We may use our capital, including on a leveraged basis in principal investments in both private company and public company securities that may be illiquid and volatile. The equity securities of a privately-held entity in which we make a principal investment are likely to be restricted as to resale and may otherwise be highly illiquid, potentially permanently so in the case of fund or similar investments. We expect that there will be restrictions on our ability to resell the securities of any such company that we acquire for a period of at least six months after we acquire those securities. Thereafter, a public market sale may be subject to volume limitations or dependent upon securing a registration statement for an initial and potentially secondary public offering of the securities. We may make principal investments that are significant relative to the overall capitalization of the investee company and resales of significant amounts of these securities might be subject to significant limitations and adversely affect the market and the sales price for the securities in which we invest.

Even if we make an appropriate investment decision based on the intrinsic value of an enterprise, we cannot assure you that general market conditions will not cause the market value of our investments to decline. For example, an increase in interest rates, a general decline in the stock markets, or other market and industry conditions adverse to companies of the type in which we invest and intend to invest could result in a decline in the value of our investments or a total loss of our investment.

***We have made and may make principal investments in relatively high-risk, illiquid assets that often have significantly leveraged capital structures, and we may fail to realize any profits from these activities for a considerable period of time or lose some or all of the principal amount we invest in these activities.***

We have made and we are evaluating principal investments (debt and/or equity, including preferred stock) in either private or very thinly traded public securities. We have and may in the future take positions in public company securities such that we may be deemed insiders and potentially subject to laws applicable to such persons. In these cases, we may be prohibited by contract or by applicable securities laws from selling such securities for a period of time or entering into certain hedging transactions. We will generally not be able to sell these securities publicly unless their sale is registered under applicable securities laws, or unless an exemption from such registration requirements is available. Our ability to dispose of public company investments is heavily dependent on the public equity markets, in as much as our ability to realize any value from an investment may depend upon our ability to sell equity of a private company in the public equity markets through an initial public offering. Furthermore, large holdings even of publicly traded equity securities can often be disposed of only over a substantial period of time, exposing the investment returns to risks of downward movement in market prices during the disposition period.

---

## **Table of Contents**

In addition, our principal investments may involve entities or businesses with capital structures that have significant leverage. The large amount of borrowing in the leveraged capital structure increases the risk of losses due to factors such as rising interest rates, downturns in the economy or deteriorations in the condition of the investment or its industry. In the event of defaults under borrowings, the assets being financed would be at risk of foreclosure, and we could lose our entire investment.

*We may experience writedowns of our investments and other losses related to the valuation of our investments and volatile and illiquid market conditions.*

We have exposure to volatile or illiquid securities, including investments in companies which have and may hold mortgage-related products, such as residential and commercial mortgage-backed securities, mortgage loans, and other mortgage and real estate-related securities. We continue to have exposure to these markets and products and as market conditions continue to evolve the fair value of these mortgage-related instruments could deteriorate.

In addition, in our principal investment activities, our concentrated holdings, illiquidity and market volatility may make it difficult to value certain of our investment securities. Subsequent valuations, in light of factors then prevailing, may result in significant changes in the values of these securities in future periods. In addition, at the time of any sales and settlements of these securities, the price we ultimately realize will depend on the demand and liquidity in the market at that time and may be materially lower than their current fair value. Any of these factors could require us to take write downs in the value of our investment and securities portfolio, which may have an adverse effect on our results of operations in future periods.

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

The amount and duration of our credit exposures have been increasing over the past year, as have the breadth and size of the entities to which we have credit exposures. We are exposed to the risk that third parties that owe us money, securities or other assets will not perform their obligations. These parties may default on their obligations to us due to bankruptcy, lack of liquidity, operational failure or other reasons. Declines in the market value of securities can result in the failure of buyers and sellers of securities to fulfill their settlement obligations, and in the failure of our clients to fulfill their credit obligations. During market downturns, counterparties to us in securities transactions may be less likely to complete transactions. In addition, particularly during market downturns, we may face additional expenses defending or pursuing claims or litigation related to counterparty or client defaults.

*Our businesses may be adversely affected by the disruptions in the credit markets, including reduced access to credit and liquidity and higher costs of obtaining credit.*

Historically, we have satisfied our need for funding from internally generated funds, the net proceeds from our 2007 initial public offering, and our revolving credit facility with City National Bank. As a result of the low level of leverage that we have traditionally employed in our business model, we have not been forced to significantly curtail our business activities as a result of lack of credit sources and we believe that our capital resources are currently sufficient to continue to support our current business activities. In the event existing internal and external financial resources do not satisfy our needs, we would have to seek additional outside financing. The availability of outside financing will depend on a variety of factors, such as our financial condition and results of operations, the availability of acceptable collateral, market conditions, the general availability of credit, the volume of trading activities, and the overall availability of credit to the financial services industry.

Widening credit spreads, as well as significant declines in the availability of credit, could adversely affect our ability to borrow on an unsecured basis. Disruptions in the credit markets could make it harder and more

---

**Table of Contents**

expensive to obtain funding for our businesses. If our available funding is limited or we are forced to fund our operations at a higher cost, these conditions may require us to curtail our business activities and increase our cost of funding, both of which could reduce our profitability, particularly in our businesses that involve investing and taking principal positions.

Liquidity, or ready access to funds, is essential to financial services firms, including ours. Failures of financial institutions have often been attributable in large part to insufficient liquidity. Liquidity is of particular importance to our sales and trading business, and perceived liquidity issues may affect the willingness of our clients and counterparties to engage in sales and trading transactions with us. Our liquidity could be impaired due to circumstances that we may be unable to control, such as a general market disruption or an operational problem that affects our sales and trading clients, third parties or us. Further, our ability to sell assets may be impaired if other market participants are seeking to sell similar assets at the same time.

Our clients engaging us with respect to mergers and acquisitions often rely on access to the secured and unsecured credit markets to finance their transactions. The lack of available credit and the increased cost of credit could adversely affect the size, volume and timing of our clients' merger and acquisition transactions, particularly large transactions, and adversely affect our investment banking business and revenues.

***We are subject to net capital and other regulatory capital requirements; failure to comply with these rules would significantly harm our business.***

JMP Securities LLC, our broker-dealer subsidiary, is subject to the net capital requirements of the SEC, the Financial Industry Regulatory Authority (FINRA) and various self-regulatory organizations of which it is a member. These requirements typically specify the minimum level of net capital a broker-dealer must maintain and also mandate that a significant part of its assets be kept in relatively liquid form. Failure to maintain the required net capital may subject a firm to limitation of its activities, including suspension or revocation of its registration by the SEC and suspension or expulsion by the FINRA and other regulatory bodies, and ultimately may require its liquidation. Failure to comply with the net capital rules could have material and adverse consequences, such as:

limiting our operations that require intensive use of capital, such as underwriting or trading activities; or

restricting us from withdrawing capital from our subsidiaries, when our broker-dealer subsidiary has more than the minimum amount of required capital. This, in turn, could limit our ability to implement our business and growth strategies, pay interest on and repay the principal of our debt and/or repurchase our shares.

In addition, a change in the net capital rules or the imposition of new rules affecting the scope, coverage, calculation, or amount of net capital requirements, or a significant operating loss or any large charge against net capital, could have similar adverse effects.

Furthermore, JMP Securities LLC is subject to laws that authorize regulatory bodies to block or reduce the flow of funds from it to JMP Group Inc. As a holding company, JMP Group Inc. depends on dividends, distributions and other payments from its subsidiaries to fund dividend payments and to fund all payments on its obligations, including debt obligations. As a result, regulatory actions could impede access to funds that JMP Group Inc. needs to make payments on obligations, including debt obligations, or dividend payments. In addition, because JMP Group Inc. holds equity interests in the firm's subsidiaries, its rights as an equity holder to the assets of these subsidiaries may not materialize, if at all, until the claims of the creditors of these subsidiaries are first satisfied.

---

**Table of Contents**

*There are contractual, legal and other restrictions that may prevent us from paying cash dividends on our common stock and, as a result, you may not receive any return on investment unless you sell your common stock for a price greater than the price for which you paid.*

Although we have paid a quarterly dividend on our common stock since our initial public offering, there can be no assurance that in the future sufficient cash will be available to pay such dividends and our board of directors may at any time modify or revoke our current dividend policy. Any decision to declare and pay dividends in the future will be made at the discretion of our board of directors and will depend on, among other things, our results of operations, financial condition, cash requirements, contractual restrictions and other factors that our board of directors may deem relevant. We do not intend to borrow funds in order to pay dividends. In addition, we are a holding company that does not conduct any business operations of our own, and therefore, we are dependent upon cash dividends and other transfers from our subsidiaries to make dividend payments on our common stock. The amounts available to us to pay cash dividends are restricted by existing and future debt agreements. In general, under the credit agreement governing our revolving line of credit with City National Bank, which expires on December 31, 2013, JMP Group LLC (our wholly owned subsidiary through which we own JMP Securities and Harvest Capital Strategies) is restricted under certain circumstances from paying dividends or making other distributions to us if an event of default has occurred under that agreement. SEC regulations also provide that JMP Securities may not pay cash dividends to us if certain minimum net capital requirements are not met. In addition, Delaware law permits the declaration of dividends only to the extent of our surplus (which is defined as total assets at fair market value minus total liabilities, minus statutory capital), or if there is no surplus, out of our net profits for the then current and/or immediately preceding fiscal years. In the event we do not pay cash dividends on our common stock as a result of these restrictions, you may not receive any return on an investment in our common stock unless you sell your common stock for a price greater than the price for which you paid.

*We may incur losses as a result of ineffective risk management processes and strategies.*

We seek to monitor and control our risk exposure through operational and compliance reporting systems, internal controls, management review processes and other mechanisms. Our investing and trading processes seek to balance our ability to profit from investment and trading positions with our exposure to potential losses. While we employ limits and other risk mitigation techniques, those techniques and the judgments that accompany their application cannot anticipate economic and financial outcomes or the specifics and timing of such outcomes. Thus, we may, in the course of our investment and trading activities, incur losses, which may be significant.

In addition, we are investing our own capital in our funds and funds of funds as well as principal investing activities, and limitations on our ability to withdraw some or all of our investments in these funds or liquidate our investment positions, whether for legal, reputational, illiquidity or other reasons, may make it more difficult for us to control the risk exposures relating to these investments.

*Our risk management policies and procedures may leave us exposed to unidentified or unanticipated risks.*

Our risk management strategies and techniques may not be fully effective in mitigating our risk exposure in all market environments or against all types of risk.

We are exposed to the risk that third parties that owe us money, securities or other assets will not perform their obligations. These parties may default on their obligations to us due to bankruptcy, lack of liquidity, operational failure, and breach of contract or other reasons. We are also subject to the risk that our rights against third parties may not be enforceable in all circumstances. As an introducing broker, we could be held responsible for the defaults or misconduct of our customers. These may present credit concerns, and default risks may arise from events or circumstances that are difficult to detect, foresee or reasonably guard against. In addition, concerns about, or a default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions, which in turn could adversely affect us. If any of the variety of instruments, processes and strategies we utilize to manage our exposure to various types of risk are not effective, we may incur losses.



---

**Table of Contents**

***Our operations and infrastructure and those of the service providers upon which we rely may malfunction or fail.***

Our businesses are highly dependent on our ability to process, on a daily basis, a large number of transactions across diverse markets, and the transactions we process have become increasingly complex. The inability of our systems to accommodate an increasing volume of transactions could also constrain our ability to expand our businesses. If any of these systems do not operate properly or are disabled, or if there are other shortcomings or failures in our internal processes, people or systems, we could suffer impairments, financial loss, a disruption of our businesses, liability to clients, regulatory intervention or reputational damage.

We have outsourced certain aspects of our technology infrastructure, administration and general service providers, including data centers, disaster recovery systems, and wide area networks, as well as some trading applications. We are dependent on our providers to manage and monitor those functions. A disruption of any of the outsourced services would be out of our control and could negatively impact our business. We have experienced disruptions on occasion, none of which has been material to our operations and results. However, there can be no guarantee that future disruptions with these providers will not occur.

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

In addition, our ability to conduct business may be adversely impacted by a disruption in the infrastructure that supports our businesses and the communities in which we are located. This may affect, among other things, our financial, accounting or other data processing systems. This may include a disruption involving electrical, communications, transportation or other services used by us or third parties with which we conduct business, whether due to fire, earthquakes or other natural disasters, power or communications failure, act of terrorism or war or otherwise. Nearly all of our employees in our primary locations in San Francisco, New York City, Boston and Chicago work in close proximity to each other. Although we have a formal disaster recovery plan in place, if a disruption occurs in one location and our employees in that location are unable to communicate with or travel to other locations, our ability to service and interact with our clients may suffer, and we may not be able to implement successfully contingency plans that depend on communication or travel.

Our operations also rely on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. Although we take protective measures and endeavor to modify them as circumstances warrant, our computer systems, software and networks may be vulnerable to unauthorized access, computer viruses or other malicious code and other events that could have a security impact. If one or more of such events occur, this could jeopardize our or our clients' or counterparties' confidential and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our, our clients', our counterparties' or third parties' operations. We may be required to expend significant additional resources to modify our protective measures, to investigate and remediate vulnerabilities or other exposures or to make required notifications, and we may be subject to litigation and financial losses that are either not insured or not fully covered through any insurance maintained by us.

***We are subject to risks in using prime brokers and custodians.***

Our asset management subsidiary and its managed funds depend on the services of prime brokers and custodians to settle and report securities transactions. In the event of the insolvency of a prime broker or custodian, our funds might not be able to recover equivalent assets in whole or in part as they will rank among the prime broker's and the custodian's unsecured creditors in relation to assets which the prime broker or custodian borrows, lends or otherwise uses. In addition, cash held by our funds with the prime broker or custodian will not be segregated from the prime broker's or custodian's own cash, and the funds will therefore rank as unsecured creditors in relation thereto.

---

## **Table of Contents**

***The demands of running a public company could result in additional costs and require our senior management to devote more time to regulatory and other requirements.***

Following our initial public offering in May 2007, we became subject to significant additional regulatory and reporting requirements, including under the Securities Exchange Act of 1934, as amended, the Sarbanes-Oxley Act and the NYSE listed company rules. We incur additional costs on an ongoing basis in order to comply with these additional requirements. These costs include those related to expanding our internal control and compliance functions, and recruiting and retaining additional staff. The historical consolidated financial information in this Form 10-K for periods prior to our initial public offering does not fully reflect the added costs that we incur as a public company or resulting changes that will have occurred in our capital structure and operations. For more information, see our historical consolidated financial statements and accompanying notes included elsewhere in this Form 10-K.

In addition, our senior management is required to devote more of their time to meeting these additional requirements. Since inception, our senior management has been actively involved in the revenue generating activities of our operations. For example, Joseph Jolson, our chief executive officer, continues to manage Harvest Opportunity Partners II, L.P. and its related funds. In the future, the demands of managing a public company may require Mr. Jolson to be less actively involved in these responsibilities and to rely on others to a greater extent for these responsibilities. If our senior management is required to devote more time to the additional requirements of managing a public company, and we are unable to successfully transition some or all of the direct revenue generating responsibilities of our senior management to other suitable professionals, our reputation, business, results of operations and financial condition may be harmed.

***Strategic investments or acquisitions and joint ventures, or our entry into new business areas, may result in additional risks and uncertainties in our business.***

We intend to grow our core businesses both through internal expansion and through strategic investments, acquisitions or joint ventures. When we make strategic investments, acquisitions or enter into joint ventures, we face numerous risks and uncertainties in combining or integrating the relevant businesses and systems. In addition, conflicts or disagreements between us and the other members of a venture may negatively impact our businesses. In addition, future acquisitions or joint ventures may involve the issuance of additional shares of our common stock, which may dilute your ownership in our firm. Furthermore, any future acquisitions of businesses or facilities by us could entail a number of risks, including:

problems with the effective integration of operations;

the inability to maintain key pre-acquisition business relationships and integrate new relationships;

increased operating costs;

exposure to unanticipated liabilities;

risks of misconduct by employees not subject to our control;

difficulties in realizing projected efficiencies, synergies and cost savings; and

exposure to new or unknown liabilities.

Any future growth of our business, such as further expansion of our asset management or principal investment activities, may require significant resources and/or result in significant unanticipated losses, costs or liabilities. In addition, expansions, acquisitions or joint ventures may require significant managerial attention, which may be diverted from our other operations. These capital, equity and managerial commitments may impair the operation of our businesses.



---

**Table of Contents**

**Risks Related to Our Investment in New York Mortgage Trust, Inc.**

As discussed further in Item 8. Note 2 to our consolidated financial statements, on January 18, 2008, we (including 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 JPM Group Inc. and affiliated entities was \$20.0 million in total, comprised of \$5.0 million by JPM Group Inc., \$5.0 million by certain funds managed by Harvest Capital Strategies LLC, and \$10.0 million from JPM Realty Trust, Inc. In addition JPM Group Inc. invested \$4.5 million in the common stock of NYMT on February 14, 2008 through a private investment public equity (PIPE) transaction.

The risks related to our investment in NYMT are set forth in NYMT's Exchange Act public filings and include but are not limited to the following:

***Continued adverse developments in the residential mortgage market, and the economy generally, may adversely affect the ability of NYMT to acquire Agency MBS and the value of the Agency MBS that NYMT holds in its portfolio and in which NYMT intends to invest in, as well as NYMT's ability to finance or sell Agency MBS.***

In recent years, the residential mortgage market in the United States has experienced a variety of difficulties and changed economic conditions, including declining home values, heightened defaults, credit losses and liquidity concerns. Over the past year, news of potential and actual securities liquidations has increased the volatility of many financial assets, including Agency MBS and other high-quality residential MBS assets. These recent disruptions have materially adversely affected the performance and market value of the MBS in NYMT's portfolio and prime ARM loans held in securitization trusts. Securities backed by residential mortgage loans originated in 2006 and 2007 have had higher and earlier than expected rates of delinquencies. In addition, the U.S. economy is presently mired in a recession, with housing prices that continue to fall in many areas around the country while unemployment rates continue to rise, further increasing the risk for higher delinquency rates. Many residential MBS have been downgraded by rating agencies in recent years, and rating agencies may further downgrade these securities in the future. Lenders have imposed additional and more stringent equity requirements necessary to finance these assets and frequent impairments based on mark-to-market valuations have generated substantial collateral calls in the industry. As a result of these difficulties and changed economic conditions, many companies operating in the mortgage sector have failed and others, including Fannie Mae and Freddie Mac, are facing serious operating and financial challenges. While the U.S. Federal Reserve has taken certain actions in an effort to ameliorate the current market conditions, and the U.S. Treasury and the Federal Housing Finance Agency, or FHFA, which is the federal regulator now assigned to oversee Fannie Mae and Freddie Mac, are also taking actions, these efforts may be ineffective. As a result of these factors, among others, the market for these securities may be adversely affected for a significant period of time.

During the past year, housing prices and appraisal values in many states have declined or stopped appreciating, after extended periods of significant appreciation. A continued decline or an extended flattening of those values may result in additional increases in delinquencies and losses on residential mortgage loans generally, particularly with respect to second homes and investor properties and with respect to any residential mortgage loans, the aggregate loan amounts of which (including any subordinate liens) are close to or greater than the related property values.

Fannie Mae and Freddie Mac guarantee the payments of principal and interest on the Agency MBS in our portfolio even if the borrowers of the underlying mortgage loans default on their payments. However, rising delinquencies and market perception can still negatively affect the value of NYMT Agency MBS or create market uncertainty about their true value. While the market disruptions have been most pronounced in the non-Agency MBS market, the impact has extended to Agency MBS. During a significant portion of 2008, the value of Agency MBS were unstable and relatively illiquid compared to prior periods.

---

**Table of Contents**

Agency MBS guaranteed by Fannie Mae and Freddie Mac are not supported by the full faith and credit of the United States. Fannie Mae and Freddie Mac have suffered significant losses and on September 6, 2008, FHFA placed Fannie Mae and Freddie Mac into conservatorship. Despite these steps, Fannie Mae and Freddie Mac could default on their guarantee obligations which would materially and adversely affect the value of NYMT Agency MBS or other Agency indebtedness in which NYMT may invest in the future.

NYMT generally posts its Agency MBS as collateral for borrowings under repurchase agreements. Any decline in their value, or perceived market uncertainty about their value, would make it more difficult for NYMT to obtain financing on favorable terms or at all, or to maintain their compliance with the terms of any financing arrangements. The value of Agency MBS may decline for several reasons, including, for example, rising delinquencies and defaults, increases in interest rates, falling home prices and credit uncertainty at Fannie Mae or Freddie Mac. In addition, since early 2008, repurchase lenders have been requiring higher levels of collateral to support loans collateralized by Agency MBS than they have in the past, making borrowings more difficult and expensive. At the same time, market uncertainty about residential mortgage loans in general could continue to depress the market for Agency MBS, which means that it may be more difficult for NYMT to sell Agency MBS on favorable terms or at all. Further, a decline in the value of Agency MBS could subject NYMT to margin calls, for which NYMT may have insufficient liquidity to support, resulting in forced sales of our assets at inopportune times. If market conditions result in a decline in available purchasers of Agency MBS or the value of Agency MBS held by NYMT, their financial position and results of operations could be adversely affected.

***Declines in the market values of assets in NYMT's investment portfolio may adversely affect periodic reported results and credit availability, which may reduce earnings and, in turn, cash available for distribution to NYMT stockholders.***

The market value of the interest-bearing assets in which NYMT invests, most notably MBS and purchased prime ARM loans and any related hedging instruments, may move inversely with changes in interest rates. NYMT anticipates that increases in interest rates will tend to decrease NYMT net income and the market value of NYMT interest-bearing assets. Substantially all of the MBS within the NYMT investment portfolio is classified for accounting purposes either as trading securities or as available-for-sale. Changes in the market values of trading securities will be reflected in earnings and changes in the market values of available-for-sale securities will be reflected in stockholders' equity. As a result, a decline in market values may reduce the book value of NYMT assets. Moreover, if the decline in market value of an available-for-sale security is other than temporary, such decline will reduce earnings.

A decline in the market value of NYMT MBS and other interest-bearing assets, such as the decline NYMT experienced during the market disruption in March 2008, may adversely affect NYMT, particularly in instances where NYMT has borrowed money based on the market value of those assets. If the market value of those assets declines, the lender may require NYMT to post additional collateral to support the loan, which would reduce NYMT liquidity and limit NYMT's ability to leverage NYMT assets. Similar to March 2008, if NYMT is unable to post the additional collateral, NYMT would have to sell the assets at a time when it might not otherwise choose to do so. In the event that NYMT does not have sufficient liquidity to meet such requirements, lending institutions may accelerate indebtedness, increase interest rates and terminate NYMT's ability to borrow, any of which could result in a rapid deterioration of NYMT's financial condition and cash available for distribution to NYMT stockholders. Moreover, if NYMT liquidates the assets at prices lower than the amortized cost of such assets, NYMT will incur losses.

***Failure to procure adequate debt financing, or to renew or replace existing debt financing as it matures, would adversely affect NYMT results and may, in turn, negatively affect the value of NYMT common stock and the ability of NYMT to distribute dividends.***

NYMT uses debt financing as a strategy to increase return on investments in the NYMT investment portfolio. However, NYMT may not be able to achieve the desired debt-to-equity ratio for a number of reasons, including the following:

lenders do not make debt financing available to NYMT at acceptable rates; or

---

**Table of Contents**

Lenders require that NYMT pledge additional collateral to cover NYMT borrowings, which NYMT may be unable to do. The dislocations in the residential mortgage market and credit markets have led lenders, including the financial institutions that provide financing for NYMT investments, to heighten their credit review standards, and, in some cases, to reduce or eliminate loan amounts available to borrowers. As a result, NYMT cannot provide assurance that any, or sufficient, debt funding will be available to NYMT in the future on terms that are acceptable to them. In the event that NYMT cannot obtain sufficient funding on acceptable terms, there may be a negative impact on the value of NYMT common stock and their ability to make distributions, and stockholders may lose part or all of their investment.

Furthermore, because NYMT relies primarily on short-term borrowings (repurchase agreements) to finance the NYMT investment portfolio, its ability to achieve their investment objectives depends not only on NYMT's ability to borrow money in sufficient amounts and on favorable terms, but also on its ability to renew or replace on a continuous basis its maturing short-term borrowings. If NYMT is not able to renew or replace maturing borrowings, it will have to sell some or all of its assets, possibly under adverse market conditions.

Each of these repurchase agreements allows the lender, to varying degrees, to revalue the collateral to values that the lender considers to reflect market value. If a lender determines that the value of the collateral has decreased, it may initiate a margin call requiring NYMT to post additional collateral to cover the decrease. When NYMT is subject to such a margin call, it must provide the lender with additional collateral or repay a portion of the outstanding borrowings with minimal notice. Any such margin call could harm NYMT's liquidity, results of operation and financial condition. Additionally, in order to obtain cash to satisfy a margin call, NYMT may be required to liquidate assets at a disadvantageous time, which could cause it to incur further losses and adversely affect its results of operations and financial condition.

As noted above, a significant portion of NYMT borrowings are collateralized borrowings in the form of repurchase agreements. NYMT borrowing costs under repurchase agreements generally correspond to short-term interest rates such as LIBOR or a short-term Treasury index, plus or minus a margin. The margins on these borrowings over or under short-term interest rates may vary depending upon:

the movement of interest rates;

the availability of financing in the market; and

the value and liquidity of NYMT mortgage-related assets.

If the interest rates on these agreements increase, it would harm NYMT's profitability and could adversely affect its results of operations and financial condition.

***NYMT's loan delinquencies may increase as a result of significantly increased monthly payments required from ARM borrowers after the initial fixed interest period.***

Scheduled increases in monthly payments on adjustable rate mortgage, or ARM, loans may result in higher delinquency rates on mortgage loans and could have a material adverse effect on NYMT's net income and results of operations. This increase in borrowers' monthly payments, together with any increase in prevailing market interest rates, may result in significantly increased monthly payments for borrowers with adjustable rate mortgage loans. Borrowers seeking to avoid these increased monthly payments by refinancing their mortgage loans may no longer be able to fund available replacement loans at comparably low interest rates. A decline in housing prices may also leave borrowers with insufficient equity in their homes to permit them to refinance their loans or sell their homes. In addition, these mortgage loans may have prepayment premiums that inhibit refinancing.

---

## **Table of Contents**

***NYMT may be required to repurchase loans if NYMT breached representations and warranties from loan sale transactions, which could harm NYMT profitability and financial condition.***

Loans from NYMT discontinued mortgage lending operations were sold to third parties under agreements with numerous representations and warranties regarding the manner in which the loan was originated, the property securing the loan and the borrower. If these representations or warranties are found to have been breached, NYMT may be required to repurchase such loan. NYMT may be forced to resell these repurchased loans at a loss, which could harm NYMT profitability and financial condition.

### **Risks Related to Our Industry**

***Difficult market conditions could adversely affect our business in many ways.***

Difficult market and economic conditions, the level and volatility of interest rates, investor sentiment and political events have in the past adversely affected and may in the future adversely affect our business and profitability in many ways. Weakness in equity markets and diminished trading volume of securities could adversely impact our sales and trading business. Industry-wide declines in the size and number of underwritings and mergers and acquisitions transactions also would likely have an adverse effect on our revenues. In addition, reductions in the trading prices for equity securities also tend to reduce the transaction value of investment banking transactions, such as underwriting and mergers and acquisitions transactions, which in turn may reduce the fees we earn from these transactions. As we may be unable to reduce expenses correspondingly, our net income and net income margins may decline.

***Significantly expanded corporate governance and public disclosure requirements may result in fewer initial public offerings and discourage companies from engaging in capital market transactions, which may reduce the number of investment banking opportunities available to pursue.***

Highly-publicized financial scandals in recent years have led to investor concerns over the integrity of the U.S. financial markets, and have prompted the U.S. Congress, the SEC, the NYSE and NASDAQ to significantly expand corporate governance and public disclosure requirements. To the extent that private companies, in order to avoid becoming subject to these new requirements, decide to forgo initial public offerings, our equity underwriting business may be adversely affected. In addition, provisions of the Sarbanes-Oxley Act and the corporate governance rules imposed by self-regulatory organizations have diverted the attention of many companies away from capital market transactions, including securities offerings and acquisition and disposition transactions. In particular, companies that either are or are planning to become public companies are incurring significant expenses in complying with the SEC and reporting requirements relating to internal control over financial reporting, and companies that disclose material weaknesses in such controls under the new standards may have greater difficulty accessing the capital markets. These factors, in addition to adopted or proposed accounting and disclosure changes, may have an adverse effect on our business.

***Financial services firms have been subject to increased scrutiny over the last several years, increasing the risk of financial liability and reputational harm resulting from adverse regulatory actions.***

Firms in the financial services industry have been operating in a difficult regulatory environment which we expect will become even more stringent in light of recent well-publicized failures of regulators to detect and prevent fraud. The industry has experienced increased scrutiny from a variety of regulators, including the SEC, the NYSE, the FINRA and state attorneys general. Penalties and fines sought by regulatory authorities have increased substantially over the last several years. This regulatory and enforcement environment has created uncertainty with respect to a number of transactions that had historically been entered into by financial services firms and that were generally believed to be permissible and appropriate. We may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and self-regulatory organizations. Each of the regulatory bodies with jurisdiction over us has regulatory powers dealing with many aspects of financial services, including, but not limited to, the authority to fine us and to grant,

---

**Table of Contents**

cancel, restrict or otherwise impose conditions on the right to carry on particular businesses. For example, a failure to comply with the obligations imposed by the Securities Exchange Act of 1934, as amended, on broker-dealers and the Investment Advisers Act on investment advisers, including record-keeping, advertising and operating requirements, disclosure obligations and prohibitions on fraudulent activities, or by the Investment Company Act of 1940, could result in investigations, sanctions and reputational damage. We also may be adversely affected as a result of new or revised legislation or regulations imposed by the SEC, other United States or foreign governmental regulatory authorities or the FINRA or other self-regulatory organizations that supervise the financial markets. Substantial legal liability or significant regulatory action against us could have adverse financial effects on us or cause reputational harm to us, which could harm our business prospects.

In addition, financial services firms are subject to numerous conflicts of interests or perceived conflicts. The SEC and other federal and state regulators have increased their scrutiny of potential conflicts of interest. We have adopted various policies, controls and procedures to address or limit actual or perceived conflicts and regularly review and update our policies, controls and procedures. However, appropriately addressing conflicts of interest is complex and difficult and our reputation could be damaged if we fail, or appear to fail, to appropriately address conflicts of interest. Our policies and procedures to address or limit actual or perceived conflicts may also result in increased costs and additional operational personnel. Failure to adhere to these policies and procedures may result in regulatory sanctions or litigation against us. For example, the research operations of investment banks have been and remain the subject of heightened regulatory scrutiny which has led to increased restrictions on the interaction between equity research analysts and investment banking professionals at securities firms. Several securities firms in the United States reached a global settlement in 2003 and 2004 with certain federal and state securities regulators and self-regulatory organizations to resolve investigations into the alleged conflicts of interest of research analysts, which resulted in rules that have imposed additional costs and limitations on the conduct of our business.

Asset management businesses have experienced a number of highly publicized regulatory inquiries which have resulted in increased scrutiny within the industry and new rules and regulations for mutual funds, investment advisors and broker-dealers. Although we do not act as an investment advisor to mutual funds, we are registered as an investment advisor with the SEC and the regulatory scrutiny and rulemaking initiatives may result in an increase in operational and compliance costs or the assessment of significant fines or penalties against our asset management business, and may otherwise limit our ability to engage in certain activities. In addition, the SEC staff has conducted studies with respect to soft dollar practices in the brokerage and asset management industries and proposed interpretive guidance regarding the scope of permitted brokerage and research services in connection with soft dollar practices. The SEC staff has indicated that it is considering additional rulemaking in this area, and we cannot predict the effect that additional rulemaking may have on our asset management or brokerage business or whether it will be adverse to us.

***Restrictions on short sale activities may negatively impact the investment strategies of the hedge funds managed by us and in turn our asset management fees.***

As of September 18, 2008, and as subsequently amended, the Securities and Exchange Commission enacted rules which, among other things, restrict the ability of management and portfolio managers of our hedge funds to conduct short sales on certain specified securities issued primarily by financial institutions. While such initial restrictions have expired, the SEC is continuing to evaluate further rulemaking in such and related regards and has implemented permanent short sale disclosure rules. Some of the funds (managed by HCS) investment strategy includes short exposure and it is possible that these rules could impact the funds ability to execute its investment strategies and negatively impact the funds performance and increase the redemption of assets under management. While the impact of the rules is not currently expected to be material to our funds operations, the ultimate outcome and related impact cannot currently be predicted with certainty. Possible impacts include a reduced universe of securities which may be sold short, lower inventories of shares available for borrowing, and increased transaction costs relating to short selling.



---

**Table of Contents**

*Our exposure to legal liability is significant, and damages and other costs that we may be required to pay in connection with litigation and regulatory inquiries, and the reputational harm that could result from legal action against us, could adversely affect our businesses.*

Many aspects of our business subject us to substantial risks of potential liability to customers and to regulatory enforcement proceedings by state and federal regulators. We face significant legal risks in our businesses and, in recent years, the volume of claims and amount of damages sought in litigation and regulatory proceedings against financial institutions have been increasing. Dissatisfied clients regularly make claims against securities firms and their brokers and investment advisers for, among others, negligence, fraud, unauthorized trading, suitability, churning, failure to supervise, breach of fiduciary duty, employee errors, intentional misconduct, unauthorized transactions, improper recruiting activity, and failures in the processing of securities transactions. These types of claims expose us to the risk of significant loss. Acts of fraud are difficult to detect and deter, and we cannot assure investors that our risk management procedures and controls will prevent losses from fraudulent activity. Additional risks include potential liability under securities or other laws for materially false or misleading statements made in connection with securities offerings and other transactions, employment claims, potential liability for fairness opinions and other advice we provide to participants in strategic transactions and disputes over the terms and conditions of complex trading arrangements. Generally, pursuant to applicable agreements, investors in our funds do not have legal recourse against us or Harvest Capital Strategies LLC for underperformance or errors of judgment in connection with the funds, nor will any act or omission be a breach of duty to the fund or limited partner unless it constituted gross negligence or willful violation of law. At any point in time, the aggregate amount of existing claims against us could be material. While we do not expect the outcome of any existing claims against us to have a material adverse impact on our business, financial condition, or results of operations, we cannot assure you that these types of proceedings will not materially and adversely affect us. We do not carry insurance that would cover payments regarding these liabilities, with the exception of fidelity coverage with respect to certain fraudulent acts of our employees. In addition, our by-laws provide for the indemnification of our officers, directors, and employees to the maximum extent permitted under Delaware law. In the future, we may be the subject of indemnification assertions under these documents by our officers, directors or employees who have or may become defendants in litigation. These claims for indemnification may subject us to substantial risks of potential liability.

As an investment banking and asset management firm, we depend to a large extent on our reputation for integrity and high-caliber professional services to attract and retain clients. As a result, if a client is not satisfied with our services, it may be more damaging to our business than to other businesses. Moreover, our role as advisor to our clients on important underwriting or mergers and acquisitions transactions involves complex analysis and the exercise of professional judgment, including rendering fairness opinions in connection with mergers and acquisitions and other transactions. Therefore, our activities may subject us to the risk of significant legal liabilities to our clients and aggrieved third parties, including stockholders of our clients who could bring securities class actions against us. Our investment banking engagements typically include broad indemnities from our clients and provisions to limit our exposure to legal claims relating to our services, however, there can be no assurance that these provisions will protect us or be enforceable in all cases. As a result, we may incur significant legal and other expenses in defending against litigation and may be required to pay substantial damages for settlements and adverse judgments. We have in the past been, currently are and may in the future be subject to such securities litigation. Substantial legal liability or significant regulatory action against us could harm our results of operations or cause reputational harm to us, which could adversely affect our business and prospects. In addition to the foregoing financial costs and risks associated with potential liability, the defense of litigation has increased costs associated with attorneys' fees. The amount of outside attorneys' fees incurred in connection with the defense of litigation could be substantial and might materially and adversely affect our results of operations as such fees occur. Securities class action litigation in particular is highly complex and can extend for a protracted period of time, thereby substantially increasing the costs incurred to resolve this litigation.

---

**Table of Contents**

***Our failure to deal appropriately with conflicts of interest could damage our reputation and adversely affect our business.***

As we have expanded the number and scope of our businesses, we increasingly confront potential conflicts of interest relating to our and our funds' and clients' investment and other activities. Certain of our funds have overlapping investment objectives, including funds which have different fee structures, and potential conflicts may arise with respect to our decisions regarding how to allocate investment opportunities among ourselves and those funds. For example, a decision to acquire material non-public information about a company while pursuing an investment opportunity for a particular fund gives rise to a potential conflict of interest when it results in our having to restrict the ability of the Company or other funds to take any action.

In addition, there may be conflicts of interest regarding investment decisions for funds in which our officers, directors and employees, who have made and may continue to make significant personal investments in a variety of funds, are personally invested. Similarly, conflicts of interest may exist or develop regarding decisions about the allocation of specific investment opportunities between the Company and the funds.

We also have potential conflicts of interest with our investment banking and institutional clients including situations where our services to a particular client or our own proprietary or fund investments or interests conflict or are perceived to conflict with a client. It is possible that potential or perceived conflicts could give rise to investor or client dissatisfaction or litigation or regulatory enforcement actions. Appropriately dealing with conflicts of interest is complex and difficult and our reputation could be damaged if we fail, or appear to fail, to deal appropriately with one or more potential or actual conflicts of interest. Regulatory scrutiny of, or litigation in connection with, conflicts of interest would have a material adverse effect on our reputation, which would materially adversely affect our business in a number of ways, including as a result of redemptions by our investors from our hedge funds, an inability to raise additional funds and a reluctance of counterparties to do business with us.

***Misconduct by our employees or by the employees of our business partners could harm us and is difficult to detect and prevent.***

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

***We may be required to make payments under certain indemnification agreements.***

Prior to our initial public offering and the corporate reorganization, we entered into agreements that provide for the indemnification of our members, managing directors, executive officers and certain other persons authorized to act on our behalf against certain losses that may arise out of our initial public offering or the corporate reorganization, certain liabilities of our managing directors relating to the time they were members of JMP Group LLC, and certain tax liabilities of our members that may arise in respect of periods prior to this offering when we operated as a limited liability company. We may be required to make payments under these indemnification agreements, which could adversely affect our financial condition.

***If we were deemed an investment company under the Investment Company Act of 1940, applicable restrictions could make it impractical for us to continue our business as contemplated and could have an adverse effect on our business.***

We are not an investment company under the Investment Company Act of 1940. However, if we were to cease operating and controlling the business and affairs of JMP Securities LLC and Harvest Capital Strategies

---

## **Table of Contents**

LLC or if either of these subsidiaries were deemed to be an investment company, our interest in those entities could be deemed an investment security for purposes of the Investment Company Act of 1940. We intend to conduct our operations so that we will not be deemed an investment company. However, if we were to be deemed an investment company, restrictions imposed by the Investment Company Act of 1940, including limitations on our capital structure and our ability to transact with affiliates, could make it impractical for us to continue our business as contemplated and would harm our business and the price of our common stock.

### ***Our historical financial information may not permit you to predict our costs of operations.***

Some of the historical consolidated financial information in this Form 10-K does not reflect the added costs that we expect to incur as a public company or the resulting changes that have occurred in our capital structure and operations. Because we historically operated through partnerships and limited liability companies prior to our transition to a corporation in connection with our initial public offering, we paid little or no taxes on profits and experienced lower expenses related to regulatory and reporting requirements.

### **Item 1B. Unresolved Staff Comments**

None.

### **Item 2. Properties**

We occupy four principal offices, with our headquarters located in San Francisco, other offices in New York, Boston and Chicago, and additional space in Atlanta, all of which are leased. Our San Francisco headquarters is located at 600 Montgomery Street and comprises approximately 37,650 square feet of leased and subleased space, pursuant to lease agreements expiring in 2011. In New York, we lease approximately 9,940 square feet at 450 Park Avenue pursuant to a lease agreement expiring in 2011. Our Boston office is located at 265 Franklin Street and consists of approximately 2,490 square feet of leased space pursuant to a lease agreement expiring in 2011. In Chicago, we sublease approximately 500 square feet at 200 South Wacker Drive pursuant to a renewable 3 month sublease agreement expiring June 2009. In Atlanta, we sublease approximately 150 square feet at 3340 Peachtree Road NE, pursuant to a sublease expiring in 2010.

### **Item 3. 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 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.

In accordance with SFAS No. 5, *Accounting for Contingencies*, 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.

### **Item 4. Submission of Matters to a Vote of Security Holders**

None.

**Table of Contents****PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities  
Market Information and Dividend Policy**

Our common stock is traded on the NYSE under the symbol JMP. The following table sets forth, for the year ended December 31, 2008 and for the period ended December 31, 2007 (which begins on May 11, 2007, the first day our common stock was publicly traded), the high and low sales prices per share of our common stock, as quoted on the NYSE.

	Sales Price	
	High	Low
<i>Year Ended December 31, 2008</i>		
First quarter	\$ 8.15	\$ 5.97
Second quarter	7.65	6.43
Third quarter	7.29	5.00
Fourth quarter	\$ 5.73	\$ 3.41

	Sales Price	
	High	Low
<i>Year Ended December 31, 2007</i>		
Second quarter (since May 11, 2007)	\$ 13.20	\$ 10.00
Third quarter	10.55	6.61
Fourth quarter	\$ 9.58	\$ 6.12

As of December 31, 2008, there were approximately 155 holders of record of our common stock.

The Company currently intends to pay quarterly cash dividends on all outstanding shares of common stock. We do not plan to pay dividends on unvested shares of restricted stock.

The Company's board of directors declared the following dividends in the years ended December 31, 2008 and 2007:

*Year Ended December 31, 2008*

Declaration Date	Dividend Per Share	Record Date	Total Amount	Payment Date
March 10, 2008	\$ 0.05	March 28, 2008	\$ 1,026,224	April 11, 2008
May 8, 2008	\$ 0.05	May 30, 2008	\$ 1,016,384	June 13, 2008
August 6, 2008	\$ 0.05	August 29, 2008	\$ 998,877	September 12, 2008
November 3, 2008	\$ 0.05	November 28, 2008	\$ 989,857	December 12, 2008

*Year Ended December 31, 2007*

Declaration Date	Dividend Per Share	Record Date	Total Amount	Payment Date
August 7, 2007 (1)	\$ 0.025	August 23, 2007	\$ 550,634	August 30, 2007
November 6, 2007	\$ 0.05	November 30, 2007	\$ 1,088,162	December 14, 2007

- (1) Represents a prorated quarterly dividend for the period from the Company's initial public offering on May 11, 2007 through June 30, 2007, based upon a quarterly dividend rate of \$0.05 per share.



**Table of Contents****Issuer Purchases of Equity Securities**

The following table summarizes the stock repurchases for the fourth quarter of 2008:

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)</b>
October 1, 2008 to October 31, 2008	128,600	\$ 4.33	128,600	1,229,489
November 1, 2008 to November 30, 2008	17,200	\$ 3.64	17,200	1,212,289
December 1, 2008 to December 31, 2008	308,767(2)	\$ 4.85	308,767(2)	903,522
Total	454,567		454,567	

- (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, the Company's board of directors authorized the buyback of an additional 2.0 million shares during the subsequent eighteen months.
- (2) Includes 300,367 shares repurchased in connection with employee stock plans, whereby the Company's shares were tendered by employees for the payment of applicable withholding taxes.

**Table of Contents****Item 6. Selected Financial Data****SELECTED CONSOLIDATED FINANCIAL DATA**

The following selected consolidated financial and other data of JMP Group Inc. should be read together with Management's Discussion and Analysis of Financial Condition and Results of Operations, and the consolidated financial statements and accompanying notes included elsewhere in this Form 10-K.

The selected consolidated statements of financial condition data as of December 31, 2008 and 2007 and the selected consolidated statements of operations data for each of the three years in the period ended December 31, 2008 have been derived from our audited consolidated financial statements and accompanying notes included elsewhere in this Form 10-K and should be read together with those consolidated financial statements and accompanying notes.

The selected consolidated statements of financial condition data as of December 31, 2006, 2005 and 2004 and the selected consolidated statements of operations data for the years ended December 31, 2004 and 2005 have been derived from audited consolidated financial statements not included in this Form 10-K.

(In thousands, except per share data and selected data and operating metrics)	<b>December 31, 2008</b>	<b>January 1, 2007 through May 15, 2007</b>	<b>May 16, 2007 through December 31, 2007</b>	<b>December 31, 2006</b>	<b>December 31, 2005</b>	<b>December 31, 2004</b>
	<b>Successor</b>	<b>Predecessor</b>	<b>Successor</b>	<b>Predecessor</b>	<b>Predecessor</b>	<b>Predecessor</b>
<b>Statement of Operations Data</b>						
<i>Revenues</i>						
Investment banking	\$ 27,249	\$ 16,055	\$ 33,222	\$ 44,060	\$ 62,880	\$ 37,413
Brokerage	35,731	12,987	21,835	30,185	23,536	22,579
Asset management fees	11,369	1,218	3,830	4,531	8,538	12,505
Principal transactions	(4,657)	541	2,404	4,288	(2,006)	1,775
Interest, dividends and other	6,897	1,571	4,202	3,742	1,713	545
<b>Total revenues</b>	<b>76,589</b>	<b>32,372</b>	<b>65,493</b>	<b>86,806</b>	<b>94,661</b>	<b>74,817</b>
<i>Expenses</i>						
Compensation and benefits	65,746	18,393	45,618	50,136	60,145	46,969
Income allocation and accretion Redeemable Class A member interests (1)		117,418		10,664	12,983	9,755
Administration	5,887	1,771	3,371	4,204	3,362	2,640
Brokerage, clearing and exchange fees	5,063	1,689	3,366	4,133	3,170	2,848
Interest and dividend expense	581	683	372	1,686	933	1,009
Other	16,158	3,948	8,516	12,167	10,146	8,098
<b>Total expenses</b>	<b>93,435</b>	<b>143,902</b>	<b>61,243</b>	<b>82,990</b>	<b>90,739</b>	<b>71,319</b>
(Loss) income before minority interest and income tax (benefit) expense	(16,846)	(111,530)	4,250	3,816	3,922	3,498
Minority interest (2)	(498)	167	247	428		
Income tax benefit	(5,701)		(2,537)			
<b>Net (loss) income (3)</b>	<b>\$ (10,647)</b>	<b>(111,697)</b>	<b>\$ 6,540</b>	<b>3,388</b>	<b>3,922</b>	<b>3,498</b>
Increase in redemption value of Series B preferred units						(513)
Distributions to Series A convertible preferred units						(469)
<b>Net income (loss) attributable to Class A and Class B common interests (3)</b>		<b>\$ (111,697)</b>		<b>\$ 3,388</b>	<b>\$ 3,922</b>	<b>\$ 2,516</b>





**Table of Contents**

(In thousands, except per share data and selected data and operating metrics)	December 31, 2008 Successor	January 1, 2007 through May 15, 2007 Predecessor	May 16, 2007 through December 31, 2007 Successor	December 31, 2006 Predecessor	December 31, 2005 Predecessor	December 31, 2004 Predecessor
Net (loss) income per common share:						
Basic	\$ (0.53)		\$ 0.30			
Diluted	\$ (0.53)		\$ 0.30			
Dividends declared and paid per common share:	\$ 0.20		\$ 0.075			
Weighted average common shares outstanding:						
Basic	20,211		21,830			
Diluted	20,211		21,916			
Net (loss) per unit Class A common interests: (3)(4)						
Basic	\$	\$ (23.84)	\$	\$ 0.91	\$ 1.04	\$ 2.12
Diluted	\$	\$ (23.84)	\$	\$ 0.89	\$ 1.04	\$ 1.92
Weighted average units outstanding Class A common interests: (4)						
Basic		2,385		1,435	1,474	1,185
Diluted		2,385		1,468	1,474	1,553
Net (loss) per unit Class B common interests: (3)(4)						
Basic	\$	\$ (23.84)	\$	\$ 0.91	\$ 1.04	\$ 0.73
Diluted	\$	\$ (23.84)	\$	\$ 0.89	\$ 1.04	\$ 0.73
Weighted average units outstanding Class B common interests: (4)						
Basic		2,300		2,300	2,300	958
Diluted		2,300		2,353	2,300	958

	December 31, 2008 Successor	December 31, 2007 Successor	December 31, 2006 Predecessor	December 31, 2005 Predecessor	December 31, 2004 Predecessor
<b>Statement of Financial Condition Data</b>					
Total assets	\$ 152,622	\$ 184,711	\$ 103,699	\$ 91,923	\$ 85,993
Note payable	8,681				2,500
Redeemable Class A member interests			12,914	11,517	5,897
Total liabilities	39,550	54,506	51,208	45,275	40,573
Total equity	105,121	115,601	46,752	46,648	45,419
<b>Selected Data and Operating Metrics (Unaudited)</b>					
Number of employees end of period	191	202	187	169	141
Number of employees average	198	194	181	162	127
Revenues per average employee	\$ 387	\$ 504	\$ 480	\$ 584	\$ 589
Compensation and benefits as a % of revenues (5)	80.7%	58.0%	57.8%	63.5%	62.8%
Companies covered by research analysts	200	213	279	294	198
Number of completed investment banking transactions	35	71	75	75	55

- Prior to our initial public offering we were organized as a limited liability company and issued to employee members Redeemable Class A member interests, that were entitled to their pro rata share of our income. Our Third Amended and Restated Limited Liability Company Agreement, as amended, provided that each employee member may elect to redeem their Redeemable Class A member interests upon resignation from us. Because of this repurchase feature, the Redeemable Class A member interests were classified as a liability in our statement of financial condition. As a result of the liability classification, the pro rata share of income allocated to the Redeemable Class A member interests based on ownership percentages and any changes in the redemption amount of the Redeemable Class A member interests were recorded as expense in our statement of income.
- Minority interest relates to the interest of third parties in JMP Realty Trust, in two asset management funds, Harvest Consumer Partners (through November 30, 2008), Harvest Technology Partners (through July 31, 2008) and in Opportunity Acquisition Corp.
- Prior to our initial public offering we were a limited liability company and our earnings did not reflect the income taxes we paid as a corporation.
- We issued 2,300,000 units of Class B common interests in a private offering in August 2004, which represented 15.5% of our outstanding membership interests. Because there is a direct relationship between the number of Class B common interests outstanding and the ownership percentage in our equity, we

## Edgar Filing: JMP Group Inc. - Form 10-K

were able to determine the number of units associated with the Class A common interests outstanding. As a result, we were able to determine earnings per share, based on an implied number of Class A common interests and an existing number of Class B common interests outstanding. We have reflected this implied number of units for purposes of determining earnings per share in all periods presented.

- (5) Compensation and benefits include salaries, performance-based cash payments and equity awards to our managing directors and other employees, but excludes compensation expense of \$3.9 million and \$7.2 million for the years ended December 31, 2008 and 2007, respectively, related to equity awards granted or vested in connection with our initial public offering.

---

## **Table of Contents**

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

*The following discussion should be read together with our consolidated financial statements and the accompanying notes contained elsewhere in this Form 10-K. In addition to historical information, the following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results and the timing of events may differ significantly from those projected in such forward-looking statements due to a number of factors, including those discussed in Item 1A – Risk Factors – and elsewhere in this Form 10-K.*

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; and

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

### **Corporate Reorganization**

Prior to May 16, 2007, the Company had conducted its business through a multi-member Delaware limited liability company, JMP Group LLC, or the Predecessor, pursuant to its Third Amended and Restated Limited Liability Company Operating Agreement dated as of August 18, 2004, as amended, or the Operating Agreement. One of JMP Group LLC's members, JMP Holdings Inc., was established in August 2004 to enable investors to invest through a corporate entity in the membership interests of JMP Group LLC. Shares of common stock of JMP Holdings were issued in a private offering in August 2004. JMP Holdings' only significant asset until May 16, 2007 was its investment in JMP Group LLC, comprised of the member interests of JMP Group LLC purchased with the net proceeds received from issuance of JMP Holdings' common stock.

In connection with its initial public offering, JMP Holdings changed its name to JMP Group Inc., and effective May 16, 2007, members of JMP Group LLC exchanged the outstanding membership interests of JMP Group LLC for shares of common stock of JMP Group Inc. As a result of the exchange, JMP Group LLC became JMP Group Inc.'s wholly-owned subsidiary and JMP Group Inc., or the Successor, completed its initial public offering on May 16, 2007. This corporate reorganization ( "Reorganization" ) is described in greater detail in the Registration Statement on Form S-1 (File No. 333-140689) filed with the Securities and Exchange Commission in connection with the initial public offering.

### **Pro Forma Combined Predecessor and Successor Financial Results for Fiscal Year Ended December 31, 2007**

Our audited financial statements present our historical financial results for the Predecessor from January 1, 2007 to May 15, 2007 and for the Successor from May 16, 2007 to December 31, 2007 to reflect the periods before and after the Reorganization on May 16, 2007. In our MD&A, we have included a discussion below regarding our results of operations and cash flows for each of the 2007 periods before and after the Reorganization. Despite the separate presentation of the Predecessor and the Successor in 2007, there were no material changes to the actual operations or customer relationships of our business as a result of the Reorganization and the initial public offering of the Successor.

To enhance the analysis of our operating results and cash flows for the annual periods presented, in addition to a discussion of each of the 2007 periods before and after the Reorganization, we have included a discussion of the operating results and cash flows of the Predecessor and Successor on a pro forma combined basis for the year ended December 31, 2007. The pro forma combined presentation consists of the mathematical addition of the

---

## **Table of Contents**

pre-reorganization results of operations and statements of cash flow of the Predecessor for the period from January 1, 2007 to May 15, 2007 plus the results of operations and statements of cash flow of the Successor for the period from May 16, 2007 to December 31, 2007. There are no other adjustments made in the pro forma combined presentation. A reconciliation showing the mathematical combination of our operating results and cash flows for such periods is included below under the headings *Historical Results of Operations* and *Liquidity and Capital Resources*.

Management believes that the pro forma combined presentation for the twelve-month period ended December 31, 2007 of each line item provides additional information investors can use to conduct a meaningful comparison of our operating results and cash flows between periods. When evaluating our results of operations and financial performance, our management views the year ended December 31, 2007 as a single measurement period, rather than the two separate periods, because the core operations of the company have not changed as a result of the Reorganization. Despite the change in corporate form that resulted from the Reorganization, we have maintained continuity of the operations of the Predecessor. Management believes that a discussion and analysis of the pro forma combined period in our MD&A would provide investors with useful information upon which to assess our operating performance because the results of operations for a twelve-month period correspond to how we reported our results in the past and how we will report our results in the future. The presentation of the pro forma combined period enables investors to compare our 2007 financial results (a period in which we operated as both an LLC and a corporation) with our 2006 financial results (a period in which we operated as an LLC) and with our 2008 results (a period in which we operated as a corporation). This comparison of twelve-month periods enables us to analyze, and enhances an investor's understanding of, the financial statement impact of our change in corporate form from an LLC to a corporation.

### **Overview**

Our results for 2008 reflected a particularly difficult operating environment, including significant asset price declines, high levels of volatility, significant dislocation of the credit markets and reduced levels of liquidity, particularly in the fourth quarter. As a consequence of the global capital markets turmoil, our investment banking operations faced severe challenges. Investment banking net revenues declined significantly compared with 2007, due to the industry-wide decline in completed mergers and acquisitions and lower net revenues from debt and equity underwriting, reflecting the difficult market conditions for leveraged finance issuance and equity and equity-related offerings. However our net brokerage revenues increased from the prior year as we capitalized on opportunities resulting from the market volatility. Finally our asset management revenues more than doubled in a year that was the worst on record for the hedge fund industry as we increased our client assets under management. We believe that the strength of our capital position and the low level of leverage that we have traditionally employed in our business model will enable us to take advantage of market opportunities as they arise in 2009.

Our business, by its nature, does not produce predictable earnings. Our results in any given period can be materially affected by conditions in global financial markets and economic conditions generally. For a further discussion of the factors that may affect our future operating results, see *Risk Factors* in Part I, Item 1A of our Annual Report on Form 10-K.

### **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, and asset management fees in our asset management business. We also generate revenues from principal transactions, interest, dividends, and other income.

#### *Investment Banking*

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.

## **Table of Contents**

### *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 and selling concessions. 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.

### *Strategic Advisory Revenues*

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 complete, 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 ), 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, or 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.

**Table of Contents***Asset Management Fees*

Asset management fees 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 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. Such fees are based on a percentage of the excess of an investment return over a specified high-water mark or hurdle rate over a defined performance period.

As of December 31, 2008, 2007 and 2006, the contractual base management fees earned from each of these investment funds ranged between 1% and 2% of assets under management. As of December 31, 2008, 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; and (iii) 25%, subject to a performance hurdle rate, for JMP Realty Trust, Inc. ( JMPRT ) and NYMT. As of December 31, 2007 and 2006, 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; and (iii) 25%, subject to a performance hurdle rate, for JMPRT.

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 may change from one period to another.

The following table presents certain information with respect to the investment funds managed by Harvest Capital Strategies ( HCS ) (formerly JMP Asset Management LLC, which changed its name to HCS effective September 29, 2008):

	Net Assets at		Company's Share of Net Assets at	
	December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007
	Successor		Successor	
<b>Funds Managed by HCS:</b>				
<b>Hedge Funds:</b>				
Harvest Opportunity Partners II	\$ 62,169,209	\$ 60,689,192	\$ 7,760,076	\$ 9,108,059
Harvest Small Cap Partners	234,051,639	63,070,695	13,780,667	11,405,427
Harvest Consumer Partners (1)	5,521,880	4,656,976	2,407,121	2,349,621
Harvest Technology Partners (1)	11,581,561	4,917,626	5,818,212	1,807,051
<b>Funds of Funds:</b>				
JMP Masters Fund	96,037,447	111,314,314	2,701,021	3,367,116
JMP Emerging Masters Fund	10,633,335	12,639,186	977,052	1,093,855
<b>REITs:</b>				
JMP Realty Trust (2)	15,829,296	18,205,867	7,841,833	9,018,087
New York Mortgage Trust (3)	48,413,824		N/A	N/A
<b>Total funds managed by HCS</b>	<b>\$ 484,238,191</b>	<b>\$ 275,493,856</b>	<b>\$ 41,285,982</b>	<b>\$ 38,149,216</b>

- (1) The Company's share of net assets in HTP and HCP is consolidated in the Company's Statements of Financial Condition, net of minority interest, at December 31, 2007. As a result of the deconsolidation of HTP effective August 1, 2008 and HCP effective December 1, 2008 the net assets of these funds are no longer consolidated at December 31, 2008.
- (2) The Company's share of net assets in JMPRT is consolidated in the Company's Statements of Financial Condition, net of minority interest.

**Table of Contents**

- (3) The portion of the net assets of New York Mortgage Trust, Inc. ( NYMT ) that is subject to the management fee calculation. In connection with its investment in NYMT, in January and February 2008, the Company entered into an advisory agreement between HCS and NYMT.

	Year Ended December 31, 2008		
	Company's Share of Change in Fair Value Successor	HCS Management Fee Successor	HCS Incentive Fee Successor
<b>Hedge Funds:</b>			
Harvest Opportunity Partners II	\$ (84,379)	\$ 685,761	\$ 38,777
Harvest Small Cap Partners	2,607,572	2,852,707	5,856,132
Harvest Consumer Partners (1)	55,489	27,659	2,010
Harvest Technology Partners (1)	189,429	37,247	21,730
<b>Funds of Funds:</b>			
JMP Masters Fund	(666,095)	904,618	33,573
JMP Emerging Masters Fund	(116,803)	104,274	9,276
<b>REITs:</b>			
JMP Realty Trust (2)	(987,694)	257,380	
New York Mortgage Trust	(4,288,211)	664,896	
<b>Totals</b>	<b>\$ (3,290,692)</b>	<b>\$ 5,534,542</b>	<b>\$ 5,961,498</b>

- (1) Revenues earned from HTP and HCP are consolidated and then eliminated in consolidation in the Company's Statements of Operations, net of minority interest, through July 31, 2008 and through November 30, 2008, respectively, as a result of the deconsolidation of HTP effective August 1, 2008 and HCP effective December 1, 2008.
- (2) Revenues earned from JMPRT are consolidated and then eliminated in consolidation in the Company's Statements of Operations, net of minority interest.

	Year Ended December 31, 2007					
	Company's Share of Change in Fair Value		HCS Management Fee		HCS Incentive Fee	
	January 1, 2007 through May 15, 2007	May 16, 2007 through December 31, 2007	January 1, 2007 through May 15, 2007	May 16, 2007 through December 31, 2007	January 1, 2007 through May 15, 2007	May 16, 2007 through December 31, 2007
	Predecessor	Successor	Predecessor	Successor	Predecessor	Successor
<b>Hedge Funds:</b>						
Harvest Opportunity Partners II	\$ 46,774	\$ (5,693)	\$ 466,787	\$ 625,548	\$	\$ 2,480
Harvest Small Cap Partners	481,461	1,563,964	90,988	354,288	226,956	893,377
Harvest Consumer Partners (1)	28,146	(72,625)	7,458	12,840	4,522	409
Harvest Technology Partners (1)	34,628	199,097	4,828	10,763	8,835	18,077
Harvest Value Income Plus (2)	38,676	(26,761)	56,980	72,093		5,825
<b>Funds of Funds:</b>						
JMP Masters Fund	50,842	233,131	286,346	592,187	20,223	1,002,418
JMP Emerging Masters Fund		93,855	36,854	67,152	2,012	90,265
<b>REIT:</b>						
JMP Realty Trust (1)	14,373	87,953	22,512	125,345		22,465
<b>Totals</b>	<b>\$ 694,900</b>	<b>\$ 2,072,921</b>	<b>\$ 972,753</b>	<b>\$ 1,860,216</b>	<b>\$ 262,548</b>	<b>\$ 2,035,316</b>

**Table of Contents**

- (1) Revenues earned from HTP, HCP and JMPRT are consolidated and then eliminated in consolidation in the Company's Statements of Operations, net of minority interest.
- (2) On December 31, 2007, HVIP was liquidated and its assets distributed to its partners.

	Year Ended December 31, 2006		
	Company's Share of Change in Fair Value Predecessor	HCS Management Fee Predecessor	HCS Incentive Fee Predecessor
<b>Hedge Funds:</b>			
Harvest Opportunity Partners II	\$ 977,077	\$ 1,494,435	\$ 631,284
Harvest Small Cap Partners	553,560	185,262	439,488
Harvest Consumer Partners (1)	101,437	12,065	14,485
Harvest Technology Partners (1)	38,944	9,121	7,471
Harvest Value Income Plus (2)	150,973	249,010	84,929
<b>Funds of Funds:</b>			
JMP Masters Fund	88,662	608,175	539,708
JMP Emerging Masters Fund		133,856	26,420
<b>REITs:</b>			
JMP Realty Trust (1)	147,714	33,075	46,467
<b>Totals</b>	<b>\$ 2,058,367</b>	<b>\$ 2,724,999</b>	<b>\$ 1,790,252</b>

- (1) Revenues earned from HTP, HCP and JMPRT are consolidated and then eliminated in consolidation in the Company's Statements of Operations, net of minority interest.
- (2) On December 31, 2007, HVIP was liquidated and its assets distributed to its partners.

*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.

*Interest, Dividends and Other Income*

Interest and dividends income includes interest and dividend income generated by our cash, investments and loans receivable. Other income includes fee sharing arrangements with, and fees earned to raise capital for third-party investment partnerships, or funds.

**Components of Expenses**

We classify our expenses as compensation and benefits, income allocation and accretion Redeemable Class A member interests, administration expense, brokerage, clearing and exchange fees, interest and dividend expense and other expenses. A significant portion of our expense base is variable, including compensation and benefits, brokerage and clearance, communication and data processing, and travel and entertainment 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





---

**Table of Contents**

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 revenues applied to different revenue categories, as adjusted if, in management's opinion such adjustments are necessary and appropriate to maintain competitive compensation levels. Due to the continued difficult market conditions in 2008, we increased our compensation expense accrual in the third and fourth quarters of 2008 with the objective of achieving full-year compensation levels in order to retain our talent base. While the compensation and benefits expense to revenue ratio is above our initial 2008 target range, we believe the increase was necessary in order to provide competitive compensation for our employees. As the mix of our total revenues from different revenue categories changes year to year, the compensation and benefits expense to revenue ratio in the future will fluctuate expectedly.

*Income Allocation and Accretion Redeemable Class A Member Interests*

While we were operating as a limited liability company, redeemable Class A member interests were issued to our former employee members and such interests were entitled to share in our income. Each holder of the Redeemable Class A member interest was a party to our Third Amended and Restated Limited Liability Company Agreement, as amended, which provided that an employee member could have elected to redeem his or her Redeemable Class A member interests without our consent in connection with such person's resignation from us. Because of this repurchase feature, the Redeemable Class A member interests were classified as a liability and measured at each balance sheet date based on the redemption amounts for the Redeemable Class A member interests. The redemption amount for a former employee member was the amount we would have been required to pay to that former employee member upon resignation to redeem all of his or her Redeemable Class A member interests, and was equal to the capital account of such former employee member as maintained by us.

Redeemable Class A member interests were accounted for as stock-based compensation and classified as a liability. As a result, the share of our income allocated to Redeemable Class A member interests, based on the membership percentage owned, and any additional changes in the redemption amount of Redeemable Class A member interests was recorded as *Income allocation and accretion Redeemable Class A member interests* in our consolidated statements of operations.

In connection with the Reorganization, the Redeemable Class A member interests were exchanged for shares of our common stock and reclassified from liability to equity. The liability-to-equity exchange of the Redeemable Class A member interests required the Predecessor to mark the liability for the Redeemable Class A member interests to its fair market value and to record a non-cash expense related to the change in value at the date of the reorganization. The Predecessor accounted for the exchange in its consolidated financial statements as follows:

The Predecessor recorded a one-time non-cash expense as a component of *Income allocation and accretion Redeemable Class A member interests* equal to \$112.9 million, which represents the difference between (a) the equity amount recorded for the shares of common stock issued in exchange for the Redeemable Class A member interests and (b) the carrying amount of the Redeemable Class A member interests prior to the Reorganization; and then

The Predecessor recorded additional equity equal to \$111.2 million for the 10,109,957 shares of common stock exchanged for the Redeemable Class A member interests based on the initial public offering price of \$11.00 per share.

## **Table of Contents**

### *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 Ridge Clearing. Changes in brokerage, clearing and exchange fees fluctuate largely in line with the volume of sales and trading activity.

### *Interest and Dividend Expense*

Interest and dividend expense results from short-term borrowings under our credit agreement with City National Bank and dividend paying short positions in our principal investment portfolio. Until the Reorganization, it consisted primarily of interest paid on capital contributed by our Predecessor's employee members, who received interest payments at an annual rate equal to the Prime rate plus 100 basis points. When we completed our Reorganization on May 16, 2007, our Redeemable Class A member interests were exchanged into shares of our common stock and thus we no longer make interest payments to the former holders of the Redeemable Class A member interests.

### *Loss Provision on Loans Receivable*

Loss provision on loans receivable includes reserves recognized on our loan notes and non-revolving credit agreements (collectively loan receivables) to record these principal investments at their net realizable value .

### *Other Expenses*

Other operating expenses primarily include travel and business development, market data, occupancy, legal and accounting professional fees and depreciation.

### *Minority Interest*

Minority interest relates to the interest of third parties in JMP Realty Trust, Opportunity Acquisition Corp. ( SPAC ) and in two of our asset management funds, Harvest Consumer Partners (HCP) and Harvest Technology Partners (HTP). JMP Realty Trust is a real estate investment trust formed in June 2006 and is managed by HCS. Because of the current ownership and external management position, we consolidated JMP Realty Trust and recorded a minority interest. HCS is also the general partner of HCP and HTP. During the year ended December 31, 2007 and part of 2008, due to our ownership and resulting control by HCS and related parties, the limited partners of HCP and HTP did not have substantive rights to remove the general partner, and, therefore, these two funds were consolidated in the financial statements and minority interest was recorded. During 2008, additional limited partners invested in HTP and HCP, and effective August 1, 2008 for HTP and December 1, 2008 for HCP, the limited partners had substantive rights to remove the general partner and the funds were deconsolidated as of the respective dates.

**Table of Contents****Historical Results of Operations**

The following table sets forth our historical results of operations for the years ended December 31, 2008, 2007 and 2006 and is not necessarily indicative of the results to be expected for any future period.

For purposes of comparing the years ended December 31, 2008 and 2007 and comparing the years ended December 31, 2007 and 2006 discussed herein, we have aggregated the Predecessor period from January 1, 2007 through May 15, 2007 and the Successor period from May 16, 2007 through December 31, 2007, without further adjustment.

	Year Ended December 31, 2007				Change from	
	Year Ended December 31, 2008 Successor	January 1, 2007 through May 15, 2007 Predecessor	May 16, 2007 through December 31, 2007 Successor	Pro Forma Combined Predecessor/ Successor	\$	%
<i>(in thousands)</i>						
<b>Revenues</b>						
Investment banking	\$ 27,249	\$ 16,055	\$ 33,222	\$ 49,277	\$ (22,028)	-44.7%
Brokerage	35,731	12,987	21,835	34,822	909	2.6%
Asset management fees	11,369	1,218	3,830	5,048	6,321	125.2%
Principal transactions	(4,657)	541	2,404	2,945	(7,602)	N/A
Interest, dividends and other income	6,897	1,571	4,202	5,773	1,124	19.5%
<b>Total revenues</b>	<b>76,589</b>	<b>32,372</b>	<b>65,493</b>	<b>97,865</b>	<b>(21,276)</b>	<b>-21.7%</b>
<b>Expenses</b>						
Compensation and benefits	65,746	18,393	45,618	64,011	1,735	2.7%
Income allocation and accretion Redeemable Class A member interests		117,418		117,418	(117,418)	-100.0%
Administration	5,887	1,771	3,371	5,142	745	14.5%
Brokerage, clearing and exchange fees	5,063	1,689	3,366	5,055	8	0.2%
Interest and dividend expense	581	683	372	1,055	(474)	-44.9%
Loss provision on loans receivable	2,896				2,896	N/A
Other	13,262	3,948	8,516	12,464	798	6.4%
<b>Total expenses</b>	<b>93,435</b>	<b>143,902</b>	<b>61,243</b>	<b>205,145</b>	<b>(111,710)</b>	<b>-54.5%</b>
<b>Income (loss) before minority interest and income tax benefit</b>	<b>(16,846)</b>	<b>(111,530)</b>	<b>4,250</b>	<b>(107,280)</b>	<b>90,434</b>	<b>-84.3%</b>
Minority interest	(498)	167	247	414	(912)	-220.3%
Income tax benefit	(5,701)		(2,537)	(2,537)	(3,164)	124.7%
<b>Net (loss) income</b>	<b>\$ (10,647)</b>	<b>\$ (111,697)</b>	<b>\$ 6,540</b>	<b>\$ (105,157)</b>	<b>94,510</b>	<b>-89.9%</b>

**Table of Contents**

	Year Ended December 31, 2007					
	January 1, 2007 through May 15, 2007 Predecessor	May 16, 2007 through December 31, 2007 Successor	Pro Forma Combined Predecessor/ Successor	Year Ended December 31, 2006 Predecessor	Change from 2006 to 2007	
(in thousands)					\$	%
<b>Revenues</b>						
Investment banking	\$ 16,055	\$ 33,222	\$ 49,277	\$ 44,060	\$ 5,217	11.8%
Brokerage	12,987	21,835	34,822	30,185	4,637	15.4%
Asset management fees	1,218	3,830	5,048	4,531	517	11.4%
Principal transactions	541	2,404	2,945	4,288	(1,343)	-31.3%
Interest, dividends and other income	1,571	4,202	5,773	3,742	2,031	54.3%
<b>Total revenues</b>	<b>32,372</b>	<b>65,493</b>	<b>97,865</b>	<b>86,806</b>	<b>11,059</b>	<b>12.7%</b>
<b>Expenses</b>						
Compensation and benefits	18,393	45,618	64,011	50,136	13,875	27.7%
Income allocation and accretion Redeemable Class A member interests	117,418		117,418	10,664	106,754	1001.1%
Administration	1,771	3,371	5,142	4,204	938	22.3%
Brokerage, clearing and exchange fees	1,689	3,366	5,055	4,133	922	22.3%
Interest and dividend expense	683	372	1,055	1,686	(631)	-37.4%
Other	3,948	8,516	12,464	12,167	297	2.4%
<b>Total expenses</b>	<b>143,902</b>	<b>61,243</b>	<b>205,145</b>	<b>82,990</b>	<b>122,155</b>	<b>147.2%</b>
Income (loss) before minority interest and income tax benefit	(111,530)	4,250	(107,280)	3,816	(111,096)	N/A
Minority interest	167	247	414	428	(14)	-3.3%
Income tax benefit		(2,537)	(2,537)		(2,537)	N/A
<b>Net (loss) income</b>	<b>\$ (111,697)</b>	<b>\$ 6,540</b>	<b>\$ (105,157)</b>	<b>\$ 3,388</b>	<b>(108,545)</b>	<b>N/A</b>

**Year Ended December 31, 2008 Compared to Year Ended December 31, 2007****Overview**

Total revenues decreased \$21.3 million, or 21.7%, from \$97.9 million for the year ended December 31, 2007 to \$76.6 million for the year ended December 31, 2008. The decrease was primarily due to a decrease in investment banking revenue of \$22.0 million and principal transaction revenues of \$7.6 million, of which \$6.5 million is related to unrealized losses from our convertible preferred security and equity security investments in NYMT, partially offset by an increase in asset management fee revenue of \$6.3 million, brokerage revenue of \$0.9 million and interest, dividends and other income of \$1.1 million.

Total expenses decreased by \$111.7 million, or 54.5%, from \$205.1 million for the year ended December 31, 2007 to \$93.4 million for the year ended December 31, 2008, primarily due to a decrease in income allocation and accretion/(dilution) expense of \$117.4 million resulting from a one-time non-cash expense associated with the exchange of Redeemable Class A member interests into shares of our common stock in connection with the Reorganization at the time of our initial public offering.

Net loss decreased \$94.5 million from a loss of \$105.2 million for the year ended December 31, 2007 to net loss of \$10.6 million for the year ended December 31, 2008, primarily as a result of the of the aforementioned decrease in expenses.

---

**Table of Contents****Revenues***Investment Banking*

Investment banking revenues decreased \$22.0 million, or 44.7%, from \$49.3 million for the year ended December 31, 2007 to \$27.2 million for the same period in 2008 and decreased as a percentage of total revenues from 50.4% to 35.6%, respectively. The decrease in revenues reflects a lower level of activity in our public equity underwriting and private placement businesses, as well as a decrease in strategic advisory revenues. Public equity underwriting revenues decreased by \$10.3 million, or 53.0%, from \$19.4 million for the year ended December 31, 2007 to \$9.1 million for the year ended December 31, 2008, primarily due to highly volatile capital markets conditions throughout the year ended December 31, 2008, which caused a significant decline in new equity issuance by U.S. companies during the period. We executed 16 public equity underwriting transactions in the year ended December 31, 2008 compared to 35 in the year ended December 31, 2007. In addition, we acted as the lead manager on one public equity underwriting transaction in the year ended December 31, 2008 compared to eight in the year ended December 31, 2007, which included our own initial public offering (for which we recognized no revenue; the underwriting fees were instead recorded as additional paid-in capital). Private placement revenues decreased \$2.4 million, or 24.4%, from \$9.7 million for the year ended December 31, 2007 to \$7.4 million for the year ended December 31, 2008. While the number of private placement transactions executed decreased from 17 in the year ended December 31, 2007 to five in the year ended December 31, 2008, average revenues per transaction increased \$0.9 million, or 157.0%, from \$0.6 million for the year ended December 31, 2007 to \$1.5 million for the year ended December 31, 2008. Our strategic advisory revenues decreased \$9.3 million, or 46.5%, from \$20.1 million for the year ended December 31, 2007 to \$10.8 million for the year ended December 31, 2008, due to a lower level of activity as well as a decrease in the average revenues per transaction executed in the year ended December 31, 2008 compared to in the year ended December 31, 2007. We executed 14 strategic advisory transactions in the year ended December 31, 2008 compared to 19 in the year ended December 31, 2007.

*Brokerage Revenues*

Brokerage revenues increased by \$0.9 million, or 2.6%, from \$34.8 million for the year ended December 31, 2007 to \$35.7 million for the year ended December 31, 2008. The increase was a result of higher gross commission income for the year ended December 31, 2008 compared to the year ended December 31, 2007. The increase in commissions resulted from increased trading activity with existing and new institutional clients during the period. Brokerage revenues increased as a percentage of total revenues, from 35.6% for the year ended December 31, 2007 to 46.7% for the year ended December 31, 2008.

*Asset Management Fees*

Asset management fees increased by \$6.3 million, or 125.2%, from \$5.0 million for the year ended December 31, 2007 to \$11.4 million for the year ended December 31, 2008. Asset management fees include base management fees and incentive fees for our funds under management, both of which increased from the year ended December 31, 2007 to the year ended December 31, 2008. The increase in base management fees from \$2.8 million for the year December 31, 2007 to \$5.5 million for the year ended December 31, 2008 is the result of an increase in client assets under management from \$237.3 million as of December 31, 2007 to \$443.0 million as of December 31, 2008. This was primarily due to the attractive performance of Harvest Small Cap Partners during 2008, which enabled it to raise additional capital and increase assets under management by \$171.0 million, when most other hedge funds were experiencing redemptions. The increase in incentive fees from \$2.2 million for the year ended December 31, 2007 to \$5.9 million for the year ended December 31, 2008 is the result of improved performance of our families of funds, in particular of Harvest Small Cap Partners. As a percentage of total revenues, asset management fees increased from 5.2% for the year ended December 31, 2007 to 14.8% for the same period in 2008.

**Table of Contents**

*Principal Transactions*

Principal transaction revenues decreased \$7.6 million from a gain of \$2.9 million for the year ended December 31, 2007 to a loss of \$4.7 million for the year ended December 31, 2008. The decrease was primarily due to a loss of \$6.8 million from our equity security investments during the year ended December 31, 2008, mostly related to a \$6.5 million unrealized loss from our convertible preferred security and equity security investments in NYMT, offset by net unrealized gain of \$2.0 million from our partnership interests in the hedge funds and funds of funds managed by HCS, which are accounted for using the equity method of accounting.

*Interest, Dividends and Other Income*

Interest, dividends and other income increased \$1.1 million, or 19.5%, from \$5.8 million for the year ended December 31, 2007 to \$6.9 million for the year ended December 31, 2008. Interest and dividends comprised \$0.8 million of the increase and was primarily due to the dividend earned from our investment in NYMT convertible preferred securities, as well as interest from our loans and notes receivable and from investing of proceeds from our initial public offering in short duration AAA rated securities. Other income increased \$0.3 million from the year ended December 31, 2007 primarily from revenue sharing arrangements with, and fees earned to raise capital for third-party investment partnerships or funds.

**Expenses**

*Compensation and Benefits*

Compensation and benefits, which includes employee payroll, performance-based cash bonus and commissions as well as equity-based compensation to our employees and managing directors, increased \$1.7 million, or 2.7%, from \$64.0 million for the year ended December 31, 2007 to \$65.7 million for the year ended December 31, 2008.

Employee payroll increased \$4.3 million, or 18.3%, from \$23.5 million for the year ended December 31, 2007 to \$27.8 million for the year ended December 31, 2008 primarily due to increases in base salaries from May 1, 2008.

Performance-based cash bonus and commission decreased \$5.4 million, or 16.7%, from \$32.3 million for the year ended December 31, 2007 to \$26.8 million for the year ended December 31, 2008 due to lower revenues in 2008.

Equity-based compensation increased \$2.9 million, or 33.7%, from \$8.3 million for the year ended December 31, 2007 to \$11.1 million for the year ended December 31, 2008 primarily due to \$2.6 million of restricted stock units ( RSUs ) amortization expense from future periods recognized in 2008 caused by the acceleration of the vesting of the restricted stock units granted as part of our 2007 annual bonus compensation program. The total equity-based compensation expense for the year ended December 31, 2008 included \$3.9 million recognized for RSUs granted in connection with the initial public offering and \$7.2 million recognized for RSUs granted after the initial public offering. Of the \$7.2 million in expense recognized for RSUs granted after the initial public offering, \$6.2 million was related to RSUs granted as part of our 2007 annual bonus compensation program and \$1.0 million was related to four year cliff vesting RSUs granted in 2007 and 2008 under the 2007 Equity Incentive Plan.

Compensation and benefits as a percentage of revenues increased from 65.4% of total revenues for the year ended December 31, 2007 to 85.8% for the same period in 2008. Excluding expense from equity-based awards as a result of the initial public offering of \$7.2 million and \$3.9 million for the years ended December 31, 2007 and 2008, respectively, as a percentage of revenues, compensation and benefits increased from 58.0% of total revenues for the year ended December 31, 2007 to 80.7% for the same period in 2008.

---

**Table of Contents**

*Income Allocation and Accretion/(Dilution)*

Income allocation and accretion/(dilution) decreased from \$117.4 million for the year ended December 31, 2007 to zero for the year ended December 31, 2008. The decrease was due to our Reorganization as a C-corporation in connection with our initial public offering as of May 16, 2007 and future periods will no longer reflect this expense.

*Administration*

Administration expenses increased \$0.7 million, or 14.5%, from \$5.1 million for the year ended December 31, 2007 to \$5.9 million for the year ended December 31, 2008. The increase was primarily due to higher expenses associated with being a public company, as well as higher conferences expenses. Administration expense increased from 5.3% of total revenues for the year ended December 31, 2007 to 7.7 % for the same period in 2008.

*Brokerage, Clearing and Exchange Fees*

Brokerage, clearing and exchange fees were \$5.1 million for both of the years ended December 31, 2008 and 2007. As a percentage of total revenues, our brokerage, clearing and exchange fees increased from 5.2 % for the year ended December 31, 2007 to 6.6% for the year ended December 31, 2008.

*Interest and Dividend Expense*

Interest and dividend expense decreased \$0.5 million, or 44.9%, from \$1.1 million for the year ended December 31, 2007 to \$0.6 million for the year ended December 31, 2008. The decrease was primarily attributable to the discontinuation of interest payments to Redeemable Class A members, due to the exchange into common stock at the time of the initial public offering. As a percentage of total revenues, interest and dividend expense decreased from 1.1% for the year ended December 31, 2007 to 0.8% for the year ended December 31, 2008.

*Loss Provision on Loans Receivable*

Loss provision on loans receivable increased \$2.9 million for the year ended December 31, 2008 (there was no provision for the year ended December 31, 2007) related to one loan note advanced in 2007 and one advanced in 2008 on a non revolving credit agreement. The aggregate principal amount of these two advances is \$5.0 million as of December 31, 2008.

*Other Expenses*

Other expenses increased \$0.8 million, or 6.4%, from \$12.5 million for the year ended December 31, 2007 to \$13.3 million for the year ended December 31, 2008. The increase in other expenses was due primarily to a \$0.6 million increase in professional fees, consisting primarily of increased legal expenses, as well as audit and accounting expenses from being a public company. As a percentage of total revenues, other expenses increased from 12.7% for the year ended December 31, 2007 to 17.3% for the same period in 2008.

*Minority Interest*

Minority interest relates to the consolidation of JMPRT and two of our hedge funds, HCP (through November 30, 2008) and HTP (through July 31, 2008), as well as Opportunity Acquisition Corp. We recorded a reduction to net loss of \$0.5 million for minority interest for the year ended December 31, 2008, compared to an increase to net loss of \$0.4 for minority interest for the year ended December 31, 2007, due to a reduction in the aggregate performance of our minority interest entities for the year ended December 31, 2008 compared to the same period in 2007.



**Table of Contents**

*Provision for Income Taxes*

Prior to the completion of our initial public offering on May 16, 2007, we were a limited liability company treated as a partnership for income tax purposes, therefore all of our income and losses were reportable by the individual members. The U.S. federal and state income taxes payable by the members based upon their share of our net income have not been reflected in the accompanying financial statements for the periods prior to the initial public offering. We were, however, subject to state and local unincorporated tax and franchise tax.

In connection with our initial public offering and Reorganization, we are subject to federal and state income taxes on all taxable income earned subsequent to May 15, 2007. Additionally, in connection with the Reorganization, we recognized a one-time tax benefit of \$4.0 million in connection with the establishment of net deferred tax asset items of \$10.2 million. In calculating the one-time tax benefit amount and associated deferred tax asset items, the Company made reasonable estimates of its share of the 2006 taxable income and 2007 taxable income attributed to the period from January 1 through May 15, 2007 of the partnerships in which it has a direct or indirect interest. These estimates may change as additional information becomes available; as a result, the net one-time tax benefit amount may change. During the year ended December 31, 2008, the Company adjusted the one-time tax benefit of \$4.0 million by \$0.3 million in additional tax benefit. For the year ended December 31, 2008 and for the period May 16, 2007 to December 31, 2007, we recorded a total tax benefit of \$5.7 million and \$2.5 million, respectively. Excluding the tax benefit adjustment of \$0.3 million and \$4.0 million, we recorded a tax benefit of \$5.4 million for the year ended December 31, 2008 and a tax provision of \$1.5 million and for the period May 16, 2007 to December 31, 2007, respectively.

The effective tax rate for the year ended December 31, 2008 and for the period May 16, 2007 to December 31, 2007 was 32.7% and 38.7%, respectively, excluding the prior year one-time tax benefit adjustment. Including the prior year one-time tax benefit adjustment, the effective tax for the year ended December 31, 2008 and for the period May 16, 2007 to December 31, 2007 was 34.9% and (63.4%), respectively.

**Period from January 1, 2007 through May 15, 2007**

**Revenues**

*Investment Banking*

Investment banking revenues were \$16.1 million or 49.6 % of total revenues for the period ended May 15, 2007 and 32.6 % of the total investment banking revenues for the twelve month pro forma combined Predecessor/Successor period ended December 31, 2007. Public equity underwriting revenues were \$5.8 million or 36.3 % of total investment banking revenues for the period ended May 15, 2007. We executed 12 public equity underwriting transactions in the period including 1 transaction where we acted as the lead manager (on our own initial public offering for which we recognized no revenue; the underwriting fees were instead recorded as additional paid-in capital). Private placement revenues were \$5.3 million, or 32.9 % of total investment banking revenues for the period. Average private placement transactions revenues per transaction were \$0.7 million for the period. Our strategic advisory revenues were \$4.9 million from 5 transactions, or 30.8 % of total investment banking revenues for the period.

*Brokerage Revenues*

Brokerage revenues were \$13.0 million, or 40.1 % of total revenues for the period ended May 15, 2007 and 37.3 % of the total brokerage revenues for the twelve month pro forma combined Predecessor/Successor period ended December 31, 2007.

*Asset Management Fees*

Asset management fee revenues were \$1.2 million, or 3.8 % of total revenues for the period ended May 15, 2007 and 24.1 % of the total asset management fee revenues for the twelve month pro forma combined

---

**Table of Contents**

Predecessor/Successor period ending December 31, 2007. Asset management fees included base management fees of \$1.0 million and incentive fees of \$0.2 million for our funds under management for the period ended May 15, 2007.

*Principal Transactions*

Principal transaction revenues of \$0.5 million were comprised of \$0.7 million of realized and unrealized gains from the company's investment of its own capital in the hedge funds and fund of funds managed by HCS and the realized and unrealized loss of \$0.2 million from equity investments in publicly traded securities. This \$0.5 million was 1.7 % of total revenues for the period ended May 15, 2007 and 18.4 % of the total principal transaction revenues for the twelve month pro forma combined Predecessor/Successor period ended December 31, 2007.

*Interest, Dividends and Other Income*

Interest, dividends and other income were \$1.6 million, or 4.9 % of total revenues for the period ended May 15, 2007 and 27.2 % of the total interest, dividends and other income for the twelve month pro forma combined Predecessor/Successor period ended December 31, 2007.

**Expenses**

*Compensation and Benefits*

Compensation and benefits, which includes employee payroll, performance-based cash bonus and commissions as well as equity-based compensation to our employees and managing directors, was \$18.4 million, or 12.8 % of total expenses for the period ended May 15, 2007 and 28.7 % of the total compensation and benefits expense for the twelve month pro forma combined Predecessor/Successor period ended December 31, 2007.

Employee payroll expense was \$8.3 million, or 45.0 % of compensation and benefits expense for the period ended May 15, 2007. Performance-based cash bonus and commission was \$9.3 million, or 50.6 % of compensation and benefits expense for the period ended May 15, 2007. Equity-based compensation was \$0.8 million, or 4.4 % of compensation and benefits expense for the period ended May 15, 2007 related to stock options.

Compensation and benefits as a percentage of revenues was 56.8 % of total revenues for the period ended May 15, 2007. Excluding expense from equity-based awards as a result of the initial public offering, as a percentage of revenues, compensation and benefits was 56.6 % of total revenues for the period ended May 15, 2007.

*Income Allocation and Accretion/ (Dilution)*

Income allocation and accretion/(dilution) was \$117.4 million for the period ended May 15, 2007 due to a one-time non-cash expense associated with the exchange of Redeemable Class A member interests into shares of our common stock in connection with the Reorganization at the time of our initial public offering.

*Administration*

Administration expense was \$1.8 million, or 1.2 % of total expenses and 5.5 % of total revenues for the period ended May 15, 2007.

*Brokerage, Clearing and Exchange Fees*

Brokerage, clearing and exchange fees were \$ 1.7 million, or 1.2 % of total expenses and 5.2 % of total revenues for the period ended May 15, 2007.

## **Table of Contents**

### *Interest and Dividend Expense*

Interest and dividend expense was \$0.7 million, or 0.5 % of total expenses and 2.1 % of total revenues for the period ended May 15, 2007. This was primarily attributable to interest payments to Redeemable Class A members for the period prior to the exchange into common stock at the time of the initial public offering.

### *Other Expenses*

Other expenses were \$3.9 million, or 2.7 % of total expenses and 12.2 % of total revenues for the period ended May 15, 2007. The majority of other expenses were travel and business development of \$1.2 million, communications and technology of \$1.4 million, occupancy of \$0.7 million and professional fees of \$0.4 million.

### *Minority Interest*

Minority interest of \$0.2 million relates to the consolidation of JMPRT and two of our hedge funds, HCP and HTP.

### *Provision for Income Taxes*

Prior to the completion of our initial public offering on May 16, 2007, we were a limited liability company treated as a partnership for income tax purposes, therefore all of our income and losses were reportable by the individual members. The U.S. federal and state income taxes payable by the members based upon their share of our net income have not been reflected in the accompanying financial statements for the periods prior to the initial public offering. We were, however, subject to state and local unincorporated tax and franchise tax.

## **Period from May 16, 2007 through December 31, 2007**

### **Revenues**

#### *Investment Banking*

Investment banking revenues were \$33.2 million, or 50.7 % of total revenues for the period from May 16, 2007 through December 31, 2007 and 67.4 % of the total investment banking revenues for the twelve month pro forma combined Predecessor/Successor period ended December 31, 2007. Public equity underwriting revenues were \$13.6 million or 41.0 % of total investment banking revenues for the period from May 16, 2007 through December 31, 2007. We executed 23 public equity underwriting transactions in the period including 7 transactions where we acted as the lead manager. Private placement revenues were \$4.5 million, or 13.4 % of total investment banking revenues and average private placement transactions revenues per transaction were \$0.5 million for the period from May 16, 2007 through December 31, 2007. Our strategic advisory revenues were \$15.2 million from 14 transactions, or 45.6 % of total investment banking revenues for the period from May 16, 2007 through December 31, 2007.

#### *Brokerage Revenues*

Brokerage revenues were 21.8 million, or 33.3 % of total revenues for the period from May 16, 2007 through December 31, 2007 and 62.7 % of the total brokerage revenues for the twelve month pro forma combined Predecessor/Successor period ended December 31, 2007.

#### *Asset Management Fees*

Asset management fee revenues were \$3.8 million, or 5.9 % of total revenues for the period from May 16, 2007 through December 31, 2007 and 75.9 % of the total asset management fee revenues for the twelve month pro forma combined Predecessor/Successor period ended December 31, 2007. Asset management fees included base management fees of \$1.8 million and incentive fees of \$2.0 million for our funds under management for the period from May 16, 2007 through December 31, 2007.

## **Table of Contents**

### *Principal Transactions*

Principal transaction revenues of \$2.4 million were comprised of \$1.8 million of realized and unrealized gains from the company's investment of its own capital in the hedge funds and fund of funds managed by HCS and the realized and unrealized gains of \$0.6 million from equity investments in publicly held securities. During the period, using some of the proceeds from the initial public offering the Company invested an additional \$12.3 million in the hedge funds and fund of funds managed by HCS. The \$2.4 million of principal transaction revenues was 3.7 % of total revenues for the period from May 16, 2007 through December 31, 2007 and 81.6 % of the total principal transaction revenues for the twelve month pro forma combined Predecessor/Successor period ended December 31, 2007.

### *Interest, Dividends and Other Income*

Interest, dividends and other income were \$4.2 million, or 6.4 % of total revenues for the period from May 16, 2007 through December 31, 2007 and 72.8 % of the total interest, dividends and other income for the twelve month pro forma combined Predecessor/Successor period ended December 31, 2007.

## **Expenses**

### *Compensation and Benefits*

Compensation and benefits, which includes employee payroll, performance-based cash bonus and commissions as well as equity-based compensation to our employees and managing directors, was \$45.6 million, or 74.5 % of total expenses for the period from May 16, 2007 through December 31, 2007 and 71.3 % of the total compensation and benefits expense for the twelve month pro forma combined Predecessor/Successor period ended December 31, 2007.

Employee payroll expense was \$15.2 million, or 33.3 % of compensation and benefits expense for the period from May 16, 2007 through December 31, 2007. Performance-based cash bonus and commission was \$22.9 million, or 50.3 % of compensation and benefits expense for the period from May 16, 2007 through December 31, 2007. Equity-based compensation was \$7.5 million, or 16.4 % of compensation and benefits expense for the period from May 16, 2007 through December 31, 2007 primarily due to \$3.1 million of stock option expense related to acceleration at the time of the initial public offering and \$4.0 million of restricted stock unit expense related to RSUs granted in connection with the initial public offering.

Compensation and benefits as a percentage of revenues was 69.7 % of total revenues for the period from May 16, 2007 through December 31, 2007. Excluding expense from equity-based awards as a result of the initial public offering, as a percentage of revenues, compensation and benefits was 58.8 % of total revenues for the period from May 16, 2007 through December 31, 2007.

### *Income Allocation and Accretion/ (Dilution)*

Income allocation and accretion/(dilution) was zero for the period from May 16, 2007 through December 31, 2007 due to the Reorganization on May 16, 2007, whereby our Redeemable Class A member interests were exchanged into shares of our common stock and therefore future periods no longer reflect this expense.

### *Administration*

Administration expense was \$3.4 million, or 5.5 % of total expenses and 5.1 % of total revenues for the period from May 16, 2007 through December 31, 2007.

### *Brokerage, Clearing and Exchange Fees*

Brokerage, clearing and exchange fees were \$3.4 million, or 5.5 % of total expenses and 5.1 % of total revenues for the period from May 16, 2007 through December 31, 2007.

---

## **Table of Contents**

### *Interest and Dividend Expense*

Interest and dividend expense was \$0.4 million, or 0.6 % of total expenses and 0.6 % of total revenues for the period from May 16, 2007 through December 31, 2007. This was primarily due to interest payments on our note payable prior to its repayment in full by the Company during the period.

### *Other Expenses*

Other expenses were \$8.5 million, or 13.9 % of total expenses and 13.0 % of total revenues for the period from May 16, 2007 through December 31, 2007. The majority of other expenses were travel and business development of \$1.9 million, communications and technology of \$2.5 million, occupancy of \$1.2 million and professional fees of \$2.0 million.

### *Minority Interest*

Minority interest of \$0.2 million relates to the consolidation of JMPRT and two of our hedge funds, HCP and HTP.

### *Provision for Income Taxes*

Due to the Reorganization in connection with our initial public offering, we became subject to federal and state income taxes on all taxable income earned subsequent to May 15, 2007. Additionally, in connection with the Reorganization, we recognized a one-time tax benefit of \$4.0 million in connection with the establishment of net deferred tax asset items of \$10.2 million. In calculating the one-time tax benefit amount and associated deferred tax asset items, the Company made reasonable estimates of its share of the 2006 taxable income and 2007 taxable income attributed to the period from January 1 through May 15, 2007 of the partnerships in which it has a direct or indirect interest. Including the one-time tax benefit, during the period from May 16, 2007 through December 31, 2007 we recorded a total tax benefit of \$2.5 million.

The effective tax rate for the period from May 16, 2007 through December 31, 2007, including the one-time tax benefit, was (63.4%).

## **Year Ended December 31, 2007, Compared to Year Ended December 31, 2006**

### **Overview**

Total revenues increased \$11.1 million, or 12.7%, from \$86.8 million for the year ended December 31, 2006 to \$97.9 million for the year ended December 31, 2007. The increase was primarily due to an increase in investment banking revenue of \$5.2 million and brokerage revenue of \$4.6 million.

Total expenses increased by \$122.1 million, or 147.2%, from \$83.0 million for the year ended December 31, 2006 to \$205.1 million for the year ended December 31, 2007, primarily due to an increase in income allocation and accretion expense of \$106.8 million resulting from a one-time non-cash expense of \$112.9 million associated with the exchange of Redeemable Class A member interests into shares of our common stock in connection with the Reorganization at the time of our initial public offering.

Net income decreased \$108.5 million from \$3.4 million for the year ended December 31, 2006 to a loss of \$105.2 million for the year ended December 31, 2007, primarily as a result of the aforementioned \$106.8 million increase in income allocation accretion expense due to a one-time non-cash expense associated with the Reorganization.

### **Revenues**

#### *Investment Banking*

Investment banking revenues increased \$5.2 million, or 11.8%, from \$44.1 million for the year ended December 31, 2006 to \$49.3 million for the same period in 2007, and decreased as a percentage of total revenues

---

**Table of Contents**

from 50.8% to 50.4%, respectively. The increase reflects higher revenue in our strategic advisory and public equity underwriting businesses, partially offset by decreased revenues in our private placement business. Our strategic advisory revenues increased \$7.2 million, or 55.6%, from \$12.9 million for the year ended December 31, 2006 to \$20.1 million for the year ended December 31, 2007, due to a 47.4% increase in average revenues per transaction in 2007 compared to 2006, during which 19 and 18 transactions were executed, respectively. Public equity underwriting revenues increased by \$1.1 million, or 5.9%, from \$18.3 million for the year ended December 31, 2006 to \$19.4 million for the year ended December 31, 2007. We executed 35 public equity underwriting transactions in the year ended December 31, 2007 compared to 36 in the year ended December 31, 2006. During the year ended December 31, 2007, we acted as a lead manager on eight public equity underwriting transactions, for which generally higher fees are earned, raising gross proceeds of \$646.1 million compared with five in the year ended December 31, 2006, raising gross proceeds of \$312.2 million. Private placement revenues decreased \$3.1 million, or 23.8%, from \$12.8 million for the year ended December 31, 2006 to \$9.7 million for the year ended December 31, 2007. The decrease was primarily due to fewer executed originations of trust preferred securities and to lower average revenues per private placement transaction in the year ended December 31, 2007, compared to the year ended December 31, 2006.

*Brokerage Revenues*

Brokerage revenues increased by \$4.6 million, or 15.4%, from \$30.2 million for the year ended December 31, 2006 to \$34.8 million for the year ended December 31, 2007. The increase was a result of higher gross commission revenue, partially offset by an increase in trading losses for the year ended December 31, 2007 compared to the year ended December 31, 2006. The increase in commissions resulted from increased trading activity with existing clients, and the addition of new institutional clients during the period. The increase in trading losses resulted from taking more frequent positions in greater amounts to facilitate customer trades, increased market making activities, as well as increased market volatility in the second half of 2007. Brokerage revenues increased as a percentage of total revenues, from 34.8% for the year ended December 31, 2006 to 35.6% for the year ended December 31, 2007.

*Asset Management Fees*

Asset management fees increased by \$0.5 million, or 11.4%, from \$4.5 million for the year ended December 31, 2006 to \$5.0 million for the year ended December 31, 2007. Asset management fees include both base management fees and incentive fees for our funds under management. The increase in 2007 was due to higher incentive fees, which grew 29.9% from the year ended December 31, 2006, based on the improved performance of our funds. Base management fees, which are earned based on assets under management, remained steady from 2006 to 2007. Although client assets under management increased from \$208.2 million as of December 31, 2006 to \$237.3 million as of December 31, 2007, there was a shift in the composition of assets under management from hedge funds to funds of funds, which charge lower base management fees. As a percentage of total revenues, asset management fees remained at 5.2% for both years.

*Principal Transactions*

Principal transaction revenues decreased \$1.3 million from \$4.3 million for the year ended December 31, 2006 to \$2.9 million for the year ended December 31, 2007. The decrease was due to a decrease in gains from equity investments in publicly held securities of \$1.6 million, partially offset by an increase of \$0.2 million in gains from investment partnerships, attributable to the performance of the funds managed by us, and a slight decrease in losses related to the value of warrant positions, which reflect the market performance of the companies in which we hold warrants.

*Interest, Dividends and Other Income*

Interest, dividends and other income increased \$2.0 million, or 54.3%, from \$3.7 million for the year ended December 31, 2006 to \$5.8 million for the same period in 2007. The increase was primarily attributable to

---

## **Table of Contents**

investing a portion of proceeds from our initial public offering in short duration AAA rated securities, as well as to higher market interest rates, more active cash management, and an increased capital allocation to our investment portfolio, which returned higher interest and dividend income as a percent of total invested capital.

### **Expenses**

#### *Compensation and Benefits*

Compensation and benefits, which includes salaries, commissions and performance bonus compensation to our employees, increased \$13.9 million, or 27.7%, from \$50.1 million for the year ended December 31, 2006 to \$64.0 million for the year ended December 31, 2007. Of the total compensation and benefits expense for 2007, \$8.3 million is attributable to equity-based compensation expenses, comprised primarily of \$7.2 million in expense recognized for accelerated vesting of stock options and the grant of restricted stock units in connection with the initial public offering. In addition, employee payroll and accrual for bonuses increased by \$5.8 million, or 11.6%, which is primarily attributable to the 12.7% increase in revenues from 2006 to 2007, to which we apply a target compensation to revenue ratio in the accrual of bonuses. Compensation and benefits as a percentage of revenues increased from 57.8% of total revenues for the year ended December 31, 2006 to 65.4% for the same period in 2007. Excluding non-cash compensation expense in the amount of \$7.2 million from equity-based awards granted or vested in connection with the initial public offering, compensation and benefits, as a percentage of revenues, increased from 57.8% of total revenues for the year ended December 31, 2006 to 58.0% for the same period in 2007.

#### *Income Allocation and Accretion Redeemable Class A Member Interests*

Income allocation and accretion increased \$106.8 million from \$10.7 million for the year ended December 31, 2006 to \$117.4 million for the year ended December 31, 2007 primarily due to a one-time non-cash expense of \$112.9 million as a result of the exchange of Redeemable Class A member interests into shares of our common stock in connection with the Reorganization at the time of our initial public offering. Due to this one-time non-cash expense, income allocation and accretion increased from 12.3% of total revenues for the year ended December 31, 2006, to 120.0% for the year ended December 31, 2007.

#### *Administration*

Administration expenses increased \$0.9 million, or 22.3%, from \$4.2 million for the year ended December 31, 2006 to \$5.1 million for the year ended December 31, 2007. The increase was primarily due to higher insurance and other expenses, such as franchise taxes and stock listing fees, associated with being a public company. The increase is also due to higher conference expense in 2007, which was the result of increased conference attendance and higher production cost during 2007 compared to 2006. Administration expense increased from 4.8% of total revenues for the year ended December 31, 2006 to 5.3% for the same period in 2007.

#### *Brokerage, Clearing and Exchange Fees*

Brokerage, clearing and exchange fees increased \$0.9 million, or 22.3%, from \$4.1 million for the year ended December 31, 2006 to \$5.1 million for the year ended December 31, 2007. The increase was primarily due to an increase in trading activity in our sales and trading business as total shares traded increased 60.7% from the year ended December 31, 2006 to the year ended December 31, 2007. As a percentage of total revenues, our brokerage, clearing and exchange fees increased from 4.8% for the year ended December 31, 2006 to 5.2% for the same period in 2007.

#### *Interest and Dividend Expense*

Interest and dividend expense decreased \$0.6 million, or 37.4%, from \$1.7 million for the year ended December 31, 2006 to \$1.1 million for the year ended December 31, 2007. The decrease was primarily due to the

---

## **Table of Contents**

discontinuation of interest payments to Redeemable Class A members, as a result of the exchange into common stock at the time of the initial public offering. As a percentage of total revenues, interest and dividend expense decreased from 1.9% for the year ended December 31, 2006 to 1.1% for the same period in 2007.

### *Other Expenses*

Other expenses increased \$0.3 million, or 2.4%, from \$12.2 million for the year ended December 31, 2006 to \$12.5 million for the year ended December 31, 2007. The year ended December 31, 2007 reflected an increase of \$1.4 million in professional fees, consisting primarily of increased legal, audit and accounting expenses due to added obligations as a public company starting on May 16, 2007. This increase was offset by a \$0.9 million decrease in travel and business development expense, primarily due to higher client reimbursements for investment banking transactions executed and closed in the year ended December 31, 2007. As a percentage of total revenues, other expenses decreased from 14.0% for the year ended December 31, 2006 to 12.7% for the year ended December 31, 2007.

### *Minority Interest*

Minority interest relates to the consolidation of JMP Realty Trust and of two of our hedge funds, Harvest Consumer Partners and Harvest Technology Partners. Minority interest of \$0.4 million remained unchanged for the year ended December 31, 2007 from the year ended December 31, 2006.

### *Provision for Income Taxes*

Prior to the completion of our initial public offering on May 16, 2007, we were a limited liability company treated as a partnership; therefore, all of our income and losses were reportable by the individual members. The U.S. federal and state income taxes payable by the members based upon their share of our net income have not been reflected in the accompanying financial statements for the periods prior to the initial public offering. We were, however, subject to state and local unincorporated tax and franchise tax.

In connection with our initial public offering and Reorganization, we are subject to federal and state income taxes on all taxable income earned subsequent to May 15, 2007. Additionally, in connection with the Reorganization, we recognized a one-time tax benefit of \$4.0 million in connection with the establishment of net deferred tax asset items of \$10.2 million. In calculating the one-time tax benefit amount and associated deferred tax asset items, the Company made reasonable estimates of its share of the 2006 taxable income and 2007 taxable income attributed to the period from January 1 through May 15, 2007 of the partnerships in which it has a direct or indirect interest. Including the one-time tax benefit, during the years ended December 31, 2007 and December 31, 2006, we recorded a total tax expense (benefit) of (\$2.5) million and \$0 million, respectively.

The effective tax rate for the years ended December 31, 2007 and December 31, 2006 was 38.7% and 0%, respectively, excluding the one-time tax benefit. Including the one-time tax benefit, the effective tax rate for the years ended December 31, 2007 and December 31, 2006 was (63.4%) and 0%, respectively.

## **Financial Condition, Liquidity and Capital Resources**

In the section that follows, we discuss the significant changes in the components of our balance sheet, cashflows and capital and liquidity for the year ended December 31, 2008 to help understand where our capital is invested and the financial condition of the Company.

On January 18, 2008, the Company and certain affiliated entities completed the acquisition of 1.0 million shares of Series A Cumulative Redeemable Convertible preferred stock of 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, at a price per share of \$20.00 for a total of \$20.0 million. The



---

**Table of Contents**

investment was comprised of \$5.0 million by JMP Group Inc., \$5.0 million by certain funds managed by HCS, and \$10.0 million from JMPRT. In addition, the Company entered into an advisory agreement between HCS and NYMT to manage certain non-agency assets. On February 14, 2008, the Company purchased NYMT common stock for an aggregate amount of \$4.5 million in a \$60.0 million private investment in public equity (PIPE) transaction executed by NYMT.

On January 22, 2008, Opportunity Acquisition Corp. filed an S-1 registration statement with the SEC in connection with an initial public offering of 15.0 million units. Each unit is expected to be offered at a price of \$10.00 per unit and will consist of one share of common stock and one warrant. Opportunity Acquisition Corp. is 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. The Company is the sponsor of the SPAC. The Company and certain individuals affiliated with the Company collectively own 4.3 million units of Opportunity Acquisition Corp. In addition, the Company has agreed to purchase from Opportunity Acquisition Corp. warrants for an aggregate purchase price of \$4.0 million in a private placement to be completed immediately prior to the completion of the initial public offering, which is pending with the SEC but is currently delayed and may be withdrawn depending on market conditions and other factors.

In the second and third quarters of 2008 the Company made advances totaling \$2.5 million on a \$5.0 million non-revolving credit note to an investment vehicle acquiring interests in late stage private companies, and \$1.3 million on a \$2.0 million non-revolving credit note to the management advisor subsidiary of a public self storage REIT.

In the third quarter of 2008, the Company made a \$4.2 million investment in a private commercial mortgage originator in the form of a note and warrants. To fund the investment, the Company drew down \$4.2 million on its revolving note with City National Bank, which then formed part of the \$8.7 million of borrowings that became a term loan, as discussed below. As of December 31, 2008, the Company has advanced a total of \$8.8 million, comprised of \$5.0 million of loan notes and an aggregate of \$3.8 million on \$7.0 million in non-revolving credit note commitments. The Company has reserves for credit losses in the amount of \$2.9 million at December 31, 2008 on these loan and credit note commitments and after unamortized origination fees of \$0.2 million, they are recorded at a net realizable value of \$5.7 million. The reserve for credit losses of \$2.9 million is primarily against the loan to the private commercial mortgage originator noted above, as the Company expects that not all of the principal of the note will be repaid at maturity due to the deterioration in the financial condition and available operating cash resources of the borrower since the loan was advanced.

Our balance sheet is relatively liquid and unleveraged. As of December 31, 2008, we had net liquid assets of \$61.0 million, primarily consisting of cash and cash equivalents, marketable securities and other investments (mainly investments in funds managed by HCS.) We had an undrawn \$21.0 million and \$30.0 million revolving line of credit with City National Bank (the Lender) at December 31, 2008 and 2007, respectively. On December 31, 2008, we entered into an agreement with the Lender to amend certain provisions of the Credit Agreement dated as of August 3, 2006, which was subsequently amended as of December 17, 2007 and as of March 27, 2008 (collectively, the Credit Agreement). The amendment converted the Company's outstanding revolving loans of \$8.7 million into a single term loan as of December 31, 2008. This term loan will be repaid in equal quarterly payments commencing on March 31, 2009 through December 31, 2013. The amendment also provided that of the original \$30.0 million revolving line of credit, \$21.0 million remains available under the revolving portion of the Credit Agreement through December 31, 2010, on which date the then existing revolving loan will convert into a 3-year term loans.

**Table of Contents**

A condensed table of cash flows for the years ended December 31, 2008, 2007 and 2006 is presented below. We have aggregated the Predecessor period from January 1, 2007 through May 15, 2007 and the Successor period from May 16, 2007 through December 31, 2007, without further adjustment, for purposes of comparison with the same periods in 2008 and 2006.

	Year Ended December 31, 2007					
	Year Ended December 31, 2008	January 1, 2007 through May 15, 2007	May 16, 2007 through December 31, 2007	Pro Forma Combined Predecessor/ Successor	Change from 2007 to 2008	
(in thousands)	Successor	Predecessor	Successor	Successor	\$	%
Cash flows from operations	\$ (22,632)	\$ (29,821)	\$ 28,320	\$ (1,501)	\$ (21,131)	-1407.8%
Cash flows from investing activities	(29,153)	(509)	(14,780)	(15,289)	(13,864)	-90.7%
Cash flows from financing activities	(1,080)	8,020	55,506	63,526	(64,606)	N/A
Total cash flows	\$ (52,865)	\$ (22,310)	\$ 69,046	\$ 46,736	\$ (99,601)	N/A

	Year Ended December 31, 2007					
	January 1, 2007 through May 15, 2007	May 16, 2007 through December 31, 2007	Pro Forma Combined Predecessor/ Successor	Year Ended December 31, 2006	Change from 2006 to 2007	
(in thousands)	Predecessor	Successor	Successor	Predecessor	\$	%
Cash flows from operations	\$ (29,821)	\$ 28,320	\$ (1,501)	\$ (12,718)	\$ 11,217	88.2%
Cash flows from investing activities	(509)	(14,780)	(15,289)	1,472	(16,761)	N/A
Cash flows from financing activities	8,020	55,506	63,526	1,850	61,676	3333.8%
Total cash flows	\$ (22,310)	\$ 69,046	\$ 46,736	\$ (9,396)	\$ 56,132	N/A

We have historically satisfied our capital and liquidity requirements primarily through member contributions from our managing directors and outside investors and internally generated cash from operations. On May 16, 2007, we completed our initial public offering of common stock, raising \$73.1 million in net proceeds. The net proceeds of our initial public offering were used, in part, to make distributions in May 2007 to the Predecessor's employee members, in the amount of \$17.5 million. We are using the remaining net proceeds for general corporate purposes, including supporting and expanding our existing business lines. Most of our operating cash flow is generated from our investment banking and brokerage revenues and is invested in cash and cash equivalents, marketable securities or other investments, and partnerships for which HCS is the investment manager.

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 \$39.7 million and \$51.3 million, which were \$38.7 million and \$50.6 million in excess of the required net capital of \$1.1 million and \$0.7 million at December 31, 2008 and 2007, respectively. JMP Securities' ratio of aggregate indebtedness to net capital was 0.24 to 1 and 0.22 to 1 at December 31, 2008 and 2007, respectively.

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 salaries semi-monthly during the year, bonus compensation payments, which make up a larger portion of total compensation, are generally paid once a year. Bonus compensation payments for a given year are generally paid in the first two months of the following year.



---

## **Table of Contents**

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. The Company's board of directors declared a quarterly cash dividend of \$0.05 per share of common stock which the Company paid during 2008, for the fourth quarter of 2007 and for each of the first three quarters of 2008.

On March 10, 2008, the Company's board of directors authorized the buyback of an additional 2.0 million shares of our common stock during the next eighteen months, depending on market conditions.

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 the next twelve months.

### **Cash Flows for the Year Ended December 31, 2008**

Cash decreased by \$52.9 million during the year ended December 31, 2008, primarily as a result of cash used in operating and investing activities.

Our operating activities used \$22.6 million of cash from the net loss of \$10.6 million, adjusted for the cash used in the change in operating assets and liabilities of \$17.2 million and non-cash revenue and expense items of \$5.2 million. The decrease in operating assets and liabilities was primarily due to the payout of \$26.9 million in 2007 bonuses in February 2008.

Our investing activities used \$29.1 million, which consisted mostly of \$19.7 million of net purchases of other investments, the funding of \$8.0 million in loans receivable and \$7.0 million in cash attributable to the deconsolidation of an investment. During the year of 2008, we invested \$15.0 million in Series A Cumulative Redeemable Convertible Preferred stock of NYMT, as well as \$4.5 million in NYMT common stock as part of the PIPE transaction executed by NYMT on February 18, 2008.

Our financing activities used \$1.1 million of cash primarily from \$6.9 million used for repurchase of our common stock for treasury and \$4.0 million of cash dividends paid to our shareholders, offset by \$8.7 million provided by issuance of long-term note payable and \$1.4 million of capital contributions from minority members.

### **Cash Flows for the Year Ended December 31, 2007**

Cash increased by \$46.7 million during the year ended December 31, 2007, primarily as a result of cash provided by financing activities.

Our operating activities used \$1.5 million of cash from the combined net loss of \$105.2 million, adjusted for the cash provided by the change in operating assets and liabilities of \$96.1 million and by non-cash revenue and expense items of \$7.6 million. The increase in operating assets and liabilities was primarily due to the increase of Redeemable Class A member interests in connection with our initial public offering, as well as the payout of 2006 year-end bonuses in the first half of 2007.

Our investing activities used \$15.3 million, which consisted mostly of \$13.0 million of net purchases of other investments, including \$9.5 million invested in quasi-government agency securities.

Our financing activities provided \$63.5 million of cash primarily due to the net proceeds from our initial public offering.

### **Cash Flows for the period from January 1, 2007 to May 15, 2007**

Cash decreased by \$22.3 million during the period ended May 15, 2007, primarily as a result of cash used by operating activities.

**Table of Contents**

Our operating activities used \$29.8 million of cash from the net loss of \$111.7 million, adjusted for the cash provided by the change in operating assets and liabilities of \$81.3 million and by non-cash revenue and expense items of \$0.6 million. The increase in operating assets and liabilities was primarily due to the increase in value of Redeemable Class A member interests of \$98.7 million in connection with our initial public offering, partially offset by the payout of 2006 year-end bonuses of \$15.2 million in February 2007.

Our investing activities used \$0.5 million and our financing activities provided \$8.0 million of cash primarily due to the proceeds of \$14.5 million from the issuance of notes payable partially offset by \$6.7 million of distributions to Class A and Class B common interest holders.

**Cash Flows for the period from May 16, 2007 to December 31, 2007**

Cash increased by \$69.0 million during the period ended December 31, 2007, primarily as a result of cash provided by financing activities.

Our operating activities provided \$28.3 million of cash from the net income of \$6.5 million, adjusted for the cash provided by the change in operating assets and liabilities of \$15.0 million and by non-cash revenue and expense items of \$6.8 million. The cash flows from the change in operating assets and liabilities was primarily due to an increase in marketable securities of \$8.3 million, an increase in restricted cash, deposits and other assets of \$8.3 million offset by an increase in accrued compensation of \$18.9 million, an increase in securities sold under repurchase agreements of \$9.1 million and an increase in short securities positions of \$1.9 million.

Our investing activities used \$14.8 million, primarily for the purchase of \$12.3 million of other investments and our financing activities provided \$55.5 million of cash, primarily due to the proceeds of \$73.1 million from our initial public offering, partially offset by a repayment of note payable of \$14.5 million.

**Cash Flows for the Year Ended December 31, 2006**

Cash decreased by \$9.4 million for the year ended December 31, 2006, primarily as a result of cash used in operating activities.

Our operating activities used \$12.7 million of cash from net income of \$3.4 million, adjusted for the cash used in the change in operating assets and liabilities of \$15.4 million and by non-cash revenue and expense items of \$0.7 million. The decrease in operating assets and liabilities was primarily due to an increase in marketable securities as a result of establishing a new investment account to more actively invest our excess cash and an increase in restricted cash proceeds from short sales related to the new investment account.

Our investing activities provided \$1.5 million of cash primarily due to net sale of other investments.

Our financing activities provided \$1.9 million in cash primarily as a result of contributions from minority interest members in connection with the formation of JMP Realty Trust, partially offset by distributions to our common members.

**Contractual Obligations**

The following table provides a summary of our contractual obligations as of December 31, 2008:

**Payments Due by Period:**

<i>(in thousands)</i>	<b>Total</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Note payable	\$ 8,680	\$ 1,736	\$ 1,736	\$ 1,736	\$ 1,736	\$ 1,736
Operating lease obligations	6,152	2,276	2,250	1,626		
Other contractual obligations (1)						
<b>Total payments</b>	<b>\$ 14,832</b>	<b>\$ 4,012</b>	<b>\$ 3,986</b>	<b>\$ 3,362</b>	<b>\$ 1,736</b>	<b>\$ 1,736</b>

(1) Excludes a capital commitment of \$0.2 million related to a private investment fund as of December 31, 2008.



---

## **Table of Contents**

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

We had no material off-balance sheet arrangements as of December 31, 2008 and 2007. 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.

### **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 SFAS No. 157, *Fair Value Measurements* ( SFAS 157 ) as of January 1, 2008. This standard establishes a consistent framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures with respect to fair value measurements. SFAS 157 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. SFAS 157 defines fair value 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 a complete discussion of SFAS 157.

Substantially all of our financial instruments 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.

Under SFAS 157, 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

**Table of Contents**

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 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 OTC equity securities, as well as quasi-government agency securities. Other investments consist principally of investments in private investment funds managed by us or our affiliates, as well as cash paid for a subscription in a private investment fund. 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 as set forth in the AICPA Audit and Accounting Guide: *Investment Companies*. 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 and warrants on public and private common stock. 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 aforementioned fair value methods represent the Company's best estimate of exit price as defined by SFAS 157.

The Company adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115* (SFAS 159) as of January 1, 2008. SFAS 159 provides companies with an option 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, SFAS 159 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

There was no adjustment recorded to retained earnings related to the adoption of SFAS 159. During the year ended the Company recorded unrealized losses of \$6.6 million on the above investments in NYMT primarily as



**Table of Contents**

credit spreads widened out significantly, impacting the credit adjusted valuation model used to fair value the Company's investment.

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.

The following tables summarize our marketable securities and other investments, as presented in our Consolidated Statements of Financial Condition, by valuation methodology as of December 31, 2008:

<i>(in thousands)</i>	Marketable Securities		Other Investments (3)			Total		Total Marketable Securities and Other Investments	
	Owned, at Market Value (1)	Sold, But Not Yet Purchased, at Market Value (2)	General Partner in Hedge Funds	General Partner in Fund of Funds	Limited Partner in Private Equity Fund	Investment in NYMT Convertible Preferred Stock	Warrants		
<b>Fair values based on:</b>									
Quoted market prices	\$ 19,838	\$ 5,678	\$	\$	\$	\$	\$	\$	\$ 25,516
Black Scholes credit adjusted valuation						11,687		11,687	11,687
Black Scholes options valuation							307	307	307
Observable market based inputs			29,766					29,766	29,766
Net asset value provided by general partners				3,678	2,516			6,194	6,194
<b>Totals</b>	<b>\$ 19,838</b>	<b>\$ 5,678</b>	<b>\$ 29,766</b>	<b>\$ 3,678</b>	<b>\$ 2,516</b>	<b>\$ 11,687</b>	<b>\$ 307</b>	<b>\$ 47,954</b>	<b>\$ 73,470</b>
<b>Fair values based on:</b>									
Quoted market prices	100.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	34.7%
Black Scholes credit adjusted valuation	0.0%	0.0%	0.0%	0.0%	0.0%	24.4%	0.0%	24.4%	15.9%
Black Scholes Options Valuation	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.6%	0.6%	0.4%
Observable market based inputs	0.0%	0.0%	62.1%	0.0%	0.0%	0.0%	0.0%	62.1%	40.6%
Net asset value provided by general partners	0.0%	0.0%	0.0%	7.7%	5.2%	0.0%	0.0%	12.9%	8.4%
<b>Totals</b>	<b>100.0%</b>	<b>100.0%</b>	<b>62.1%</b>	<b>7.7%</b>	<b>5.2%</b>	<b>24.4%</b>	<b>0.6%</b>	<b>100.0%</b>	<b>100.0%</b>

(1) Marketable securities owned consist mainly of U.S. listed and OTC equity securities, as well as quasi-government agency securities.

(2) Marketable securities sold, but not yet purchased consist mainly of U.S. listed and OTC equity securities.

(3) Other investments consist of general partnership interests in hedge funds and funds of hedge funds managed by HCS, limited partnership interests in private investment funds managed by third parties that invest in predominately private securities, investment in NYMT convertible preferred stock and warrants in public and private common stock.

**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

---

## **Table of Contents**

on our proportionate share of the earnings (or losses) of the investment partnership. In accordance with the AICPA Audit and Accounting Guide for investment companies, 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 ready market existed for these investments, and the differences could be material. Adjustments to carrying value are made, if 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.

We are also entitled to receive incentive fee allocations from the investment partnerships when the return exceeds certain threshold returns. 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.

### *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 SFAS 5, *Accounting for 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.

### *Income Taxes*

The Successor, JMP Group Inc., accounts for income taxes in accordance with Statement of Financial Standards No. 109, *Accounting for Income Taxes*, ( SFAS 109 ). SFAS 109 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 Predecessor, JMP Group LLC, was a limited liability company and was treated as a partnership for federal and state income tax purposes. Therefore, the Predecessor was not subject to federal and state income taxes, and accordingly, did not

---

## **Table of Contents**

provide for the federal and state income taxes in the financial statements, but it was liable for state and local unincorporated business tax or franchise tax.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109* ( FIN 48 ), which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken on a tax return and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company adopted FIN 48 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.

### **Recent Accounting Pronouncements**

For a description of recent accounting pronouncements affecting the Company, refer to Note 3 in the accompanying consolidated financial statements.

### **Item 7A. Quantitative and Qualitative 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 Risk*

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

## **Table of Contents**

Our marketable securities owned include long positions in equity securities that were recorded at a fair value of \$12.0 million as of December 31, 2008. Our marketable securities sold but not yet purchased consist of short positions in equity securities and were recorded at a fair value of \$5.7 million as of December 31, 2008. The net potential loss in fair value for our marketable equity securities portfolio as of December 31, 2008, using a hypothetical 10% decline in prices, is estimated to be approximately \$0.6 million. In addition, as of December 31, 2008, we have invested \$41.3 million of our own capital in our funds, which are invested primarily in publicly traded equity securities. The net potential loss in fair value for our investments at December 31, 2008, using a hypothetical 10% decline in the funds' investment portfolios, is estimated to be approximately \$4.1 million.

### *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.

### *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 receivable 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.

**Table of Contents**

**Item 8. Financial Statements and Supplementary Data**  
**Management's Report on Internal Control Over Financial Reporting**

The management of JMP Group Inc. is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2008. This assessment was based on criteria for effective internal control over financial reporting described in Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that, as of December 31, 2008, the Company maintained effective internal control over financial reporting.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2008, has been audited by PricewaterhouseCoopers LLP, the Company's independent registered public accounting firm, as stated in its report appearing on page 72, which expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2008.

---

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of

JMP Group Inc.

In our opinion, the accompanying consolidated statements of financial conditions and the related consolidated statements of operations, changes in shareholders' and members' equity and cash flows present fairly, in all material respects, the financial position of JMP Group Inc. and its subsidiaries at December 31, 2008 and December 31, 2007, and the results of their operations and their cash flows for the year ended December 31, 2008 (successor), the period from May 16, 2007 to December 31, 2007 (successor), the period from January 1, 2007 to May 15, 2007 (predecessor) and the year ended December 31, 2006 (predecessor) in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our audits (which was an integrated audit in 2008). We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

/s/ PricewaterhouseCoopers LLP

San Francisco, CA

March 3, 2009

**Table of Contents****JMP Group Inc.****Consolidated Statements of Financial Condition**

	December 31, 2008	December 31, 2007 Successor
<b>Assets</b>		
Cash and cash equivalents	\$ 46,261,959	\$ 99,127,043
Restricted cash and deposits (includes cash on deposit with clearing broker of \$255,336 at December 31, 2008 and December 31, 2007)	6,929,501	12,038,511
Receivable from clearing broker	1,878,078	1,475,626
Investment banking fees receivable, net of allowance for doubtful accounts of \$78,579 and \$156,004 at December 31, 2008 and December 31, 2007	1,647,761	5,848,754
Marketable securities owned, at fair value	19,838,480	24,220,761
Other investments	47,954,255	27,557,542
Loans receivable, net	5,725,867	1,177,763
Fixed assets, net	1,207,014	1,857,444
Deferred tax assets	10,837,970	2,626,227
Other assets	10,341,003	8,781,592
<b>Total assets</b>	<b>\$ 152,621,888</b>	<b>\$ 184,711,263</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Liabilities:</b>		
Marketable securities sold, but not yet purchased, at fair value	\$ 5,677,683	\$ 10,954,013
Securities sold under agreements to repurchase		9,135,000
Accrued compensation	21,349,724	28,154,889
Note payable	8,680,850	
Other liabilities	3,841,555	6,261,842
<b>Total liabilities</b>	<b>39,549,812</b>	<b>54,505,744</b>
<b>Minority Interest</b>	<b>7,951,017</b>	<b>14,604,692</b>
<b>Commitments and Contingencies</b>		
<b>Shareholders' Equity</b>		
Common stock, \$0.001 par value, 100,000,000 shares authorized; 22,069,741 and 22,044,541 shares issued at December 31, 2008 and 2007; 20,470,125 and 20,626,480 shares outstanding at December 31, 2008 and 2007	22,070	22,045
Additional paid-in capital	125,939,747	121,001,922
Treasury stock (at cost, 1,599,616 and 1,418,061 shares at December 31, 2008 and 2007)	(10,710,981)	(10,884,218)
Retained earnings (accumulated deficit)	(10,129,777)	5,461,078
<b>Total shareholders' equity</b>	<b>105,121,059</b>	<b>115,600,827</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 152,621,888</b>	<b>\$ 184,711,263</b>

See accompanying notes to consolidated financial statements

**Table of Contents****JMP Group Inc.****Consolidated Statements of Operations**

	Year Ended December 31, 2008 Successor	Year Ended December 31, 2007		Year Ended December 31, 2006 Predecessor
		January 1, 2007 through May 15, 2007 Predecessor	May 16, 2007 through December 31, 2007 Successor	
<b>Revenues</b>				
Investment banking	\$ 27,249,421	\$ 16,054,815	\$ 33,221,615	\$ 44,059,972
Brokerage	35,731,188	12,986,710	21,835,349	30,185,278
Asset management fees	11,368,966	1,218,467	3,829,996	4,530,580
Principal transactions	(4,657,068)	541,251	2,404,351	4,288,324
Interest and dividends	5,739,153	1,244,663	3,668,040	3,368,647
Other income	1,157,831	326,105	533,768	373,058
<b>Total revenues</b>	<b>76,589,491</b>	<b>32,372,011</b>	<b>65,493,119</b>	<b>86,805,859</b>
<b>Expenses</b>				
Compensation and benefits	65,745,840	18,393,339	45,617,518	50,136,224
Income allocation and accretion Redeemable Class A member interests		117,418,274		10,663,934
Administration	5,886,781	1,770,553	3,371,302	4,204,283
Brokerage, clearing and exchange fees	5,062,582	1,689,174	3,365,797	4,132,874
Travel and business development	3,472,505	1,197,440	1,930,058	4,027,947
Communications and technology	3,837,198	1,389,647	2,474,681	3,372,337
Occupancy	1,905,248	699,774	1,184,173	1,845,005
Professional fees	3,064,865	375,969	2,054,182	1,011,291
Depreciation	963,095	525,734	688,490	1,486,401
Interest and dividend expense	581,278	683,114	372,110	1,685,814
Loss provision on loans receivable	2,896,149			
Other	19,646	(241,082)	184,682	424,504
<b>Total expenses</b>	<b>93,435,187</b>	<b>143,901,936</b>	<b>61,242,993</b>	<b>82,990,614</b>
(Loss) income before minority interest and income tax benefit	(16,845,696)	(111,529,925)	4,250,126	3,815,245
Minority interest	(498,404)	167,388	246,930	427,598
Income tax benefit	(5,700,952)		(2,536,614)	
<b>Net (loss) income</b>	<b>\$ (10,646,340)</b>	<b>\$ (111,697,313)</b>	<b>\$ 6,539,810</b>	<b>\$ 3,387,647</b>
<b>Net (loss) income per common share:</b>				
Basic	\$ (0.53)		\$ 0.30	
Diluted	\$ (0.53)		\$ 0.30	
<b>Weighted average common shares outstanding:</b>				
Basic	20,210,888		21,829,544	
Diluted	20,210,888		21,916,158	
<b>Net (loss) per unit Class A common interests:</b>				
Basic		\$ (23.84)		\$ 0.91
Diluted		\$ (23.84)		\$ 0.89
<b>Weighted average units outstanding Class A common interests:</b>				
Basic		2,384,881		1,434,968
Diluted		2,384,881		1,468,117



Edgar Filing: JMP Group Inc. - Form 10-K

Net (loss) per unit Class B common interests:			
Basic		\$ (23.84)	\$ 0.91
Diluted		\$ (23.84)	\$ 0.89
Weighted average units outstanding Class B common interests:			
Basic		2,300,000	2,300,000
Diluted		2,300,000	2,353,132

See accompanying notes to consolidated financial statements

**Table of Contents****JMP Group Inc.****Consolidated Statements of Changes in Shareholders and Members Equity**

	Class A Common Interests		Class B Common Interests		Members	Equity	Total Equity
					Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	
<b>Predecessor:</b>							
Balance, December 31, 2005	\$ 11,861,848		\$ 31,650,177		\$ 90,727	\$ 3,044,867	\$ 46,647,619
Net income						3,387,647	3,387,647
Additional paid-in capital stock options					177,908		177,908
Distributions paid to Class A and Class B common interests						(3,461,362)	(3,461,362)
Balance, December 31, 2006	11,861,848		31,650,177		268,635	2,971,152	46,751,812
Net loss						(111,697,313)	(111,697,313)
Additional paid-in capital stock-based compensation					816,248		816,248
Contributions of Class A common members	401,172						401,172
Redeemable Class A member interests liability to equity exchange for treasury	111,209,527						111,209,527
Distributions paid to Class A and Class B common interests						(6,679,874)	(6,679,874)
Balance, May 15, 2007	\$ 123,472,547		\$ 31,650,177		\$ 1,084,883	\$ (115,406,035)	\$ 40,801,572
	Common Stock		Shareholders Equity			Retained Earnings (Accumulated Deficit)	Total Equity
	Shares	Amount	Common Treasury Stock Amount	Additional Paid-In Capital			
<b>Successor:</b>							
Balance, May 16, 2007	1,012,999	\$ 1,013	\$		\$ 14,227,555	\$ 560,064	\$ 14,788,632
Net income						6,539,810	6,539,810
Additional paid-in capital stock-based compensation	44,642	45			7,453,841		7,453,886
Issuance of common stock for membership interests	13,787,036	13,787			26,225,681		26,239,468
Net proceeds from issuance of common stock in initial public offering	7,199,864	7,200			73,094,845		73,102,045
Cash dividends paid to shareholders						(1,638,796)	(1,638,796)
Purchases of shares of common stock for treasury					(10,884,218)		(10,884,218)
Balance, December 31, 2007	22,044,541	22,045	(10,884,218)		121,001,922	5,461,078	115,600,827
Net loss						(10,646,340)	(10,646,340)
Additional paid-in capital stock-based compensation	25,200	25			11,119,673		11,119,698
Cash dividends paid to shareholders						(4,031,342)	(4,031,342)

Edgar Filing: JMP Group Inc. - Form 10-K

Purchases of shares of common stock for treasury			(6,921,784)			(6,921,784)
Reissuance of shares of common stock from treasury			7,095,021	(6,181,848)	(913,173)	
Balance, December 31, 2008	22,069,741	\$ 22,070	\$ (10,710,981)	\$ 125,939,747	\$ (10,129,777)	\$ 105,121,059

See accompanying notes to consolidated financial statements

**Table of Contents****JMP Group Inc.****Consolidated Statements of Cash Flows**

	Year Ended December 31, 2007			
	Year Ended December 31, 2008 Successor	January 1, 2007 through May 15, 2007 Predecessor	May 16, 2007 through December 31, 2007 Successor	Year Ended December 31, 2006 Predecessor
<b>Cash flows from operating activities:</b>				
Net (loss) income	\$ (10,646,340)	\$ (111,697,313)	\$ 6,539,810	\$ 3,387,647
Adjustments to reconcile net (loss) income to net cash (used in) provided by in operating activities:				
Provision for doubtful accounts	19,646	(241,079)	111,368	324,504
Loss provision on loans receivable	2,896,149			
Amortization of loan origination and commitment fees	(69,483)			
Loan origination and commitment fees	260,000			
Change in other investments:				
Fair value	2,424,016	(430,177)	1,276,526	(2,235,768)
Incentive fees reinvested in general partnership interests	(3,666,029)	(226,953)	(465,343)	(1,005,102)
Depreciation and amortization of fixed assets	963,095	525,734	688,490	1,486,401
Write-off of fixed assets				132,359
Minority interest	(498,404)	167,388	246,930	427,598
Stock-based compensation expense	11,119,698	816,249	7,453,886	177,908
Deferred income taxes	(8,211,744)		(2,536,614)	
Net change in operating assets and liabilities:				
Decrease (increase) in receivables	3,749,895	1,421,098	1,711,500	(4,234,948)
(Increase) in marketable securities	(1,040,627)	(3,953,001)	(8,318,572)	(8,659,541)
(Increase) in restricted cash, deposits and other assets	(4,632,665)	(1,271,797)	(8,284,908)	(8,451,222)
Increase in marketable securities sold, but not yet purchased	2,323,639	1,561,160	1,911,964	7,375,349
Increase (decrease) in securities sold under agreements to repurchase	(9,135,000)		9,135,000	
Increase (decrease) in accrued compensation and other liabilities	(8,487,845)	(15,189,481)	18,849,944	(2,840,126)
Increase in Redeemable Class A member interests		98,696,930		1,397,016
Net cash (used in) provided by operating activities	(22,631,999)	(29,821,242)	28,319,981	(12,717,925)
<b>Cash flows from investing activities:</b>				
Purchases of fixed assets	(312,665)	(60,416)	(385,850)	(321,970)
Purchases of other investments	(19,686,450)	(700,000)	(12,288,858)	(2,374,055)
Sales of other investments	5,161,783	251,696	270,084	4,167,584
Cash associated with deconsolidation of investment	(7,016,482)			
Funding of loans receivable	(7,956,770)		(3,000,000)	(3,000,000)
Repayment of loan receivable	322,000		625,000	3,000,000
Repayment of note receivable	335,272			
Net cash (used in) provided by investing activities	(29,153,312)	(508,720)	(14,779,624)	1,471,559
<b>Cash flows from financing activities:</b>				
Proceeds from issuance of note payable	8,680,850	14,500,000		
Repayment of note payable			(14,500,000)	
Proceeds from initial public offering, net of expenses			73,102,045	
Distributions paid to Class A and Class B common interests		(6,679,874)		(3,461,362)
Cash dividends paid to shareholders	(4,031,342)		(1,638,796)	
Purchases of shares of common stock for treasury	(6,921,784)		(10,884,218)	
Capital contributions of minority interest members and shareholders	1,416,757	200,000	9,583,014	5,452,000
Dividends paid to minority interest shareholders	(224,254)		(155,660)	(140,140)
Net cash (used in) provided by financing activities	(1,079,773)	8,020,126	55,506,385	1,850,498

## Edgar Filing: JMP Group Inc. - Form 10-K

Net (decrease) increase in cash and cash equivalents	(52,865,084)	(22,309,836)	69,046,742	(9,395,868)
Cash and cash equivalents, beginning of period	99,127,043	52,328,804	30,080,301	61,724,672
Cash and cash equivalents, end of period	\$ 46,261,959	\$ 30,018,968	\$ 99,127,043	\$ 52,328,804
<b>Supplemental disclosures of cash flow information:</b>				
Cash paid during the period for interest	\$ 357,706	\$ 1,033,937	\$ 173,788	\$ 1,403,652
Cash paid during the period for taxes	\$ 6,729,517	\$	\$ 380,821	\$
<b>Non-cash financing activities:</b>				
Issuance of Class A common interests	\$	\$ 401,172	\$	\$
Issuance of JMPRT common stock	\$	\$ 20,800	\$	\$
Dividends distributed by JMPRT to minority interest shareholders in the form of participation interest	\$	\$	\$ 1,197,238	\$

See accompanying notes to consolidated financial statements

---

**Table of Contents**

**JMP GROUP INC.**

**Notes to Consolidated Financial Statements**

**December 31, 2008, 2007 and 2006**

**1. Organization and Description of Business**

JMP Group Inc., together with its subsidiaries (collectively, the Company or Successor ), is an independent investment banking and asset management firm headquartered in San Francisco. 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 its wholly-owned subsidiary, JMP Securities LLC ( JMP Securities ), its asset management business through its wholly-owned subsidiary, Harvest Capital Strategies LLC ( HCS ) (formerly JMP Asset Management LLC, which changed its name to HCS effective September 29, 2008), and certain principal investments through its wholly-owned subsidiary JMP Capital LLC ( JMP Capital ). 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.

Prior to May 16, 2007 the Company had conducted its business through a multi-member Delaware limited liability company, JMP Group LLC (the Predecessor ), pursuant to its Third Amended and Restated Limited Liability Company Operating Agreement dated as of August 18, 2004, as amended (the Operating Agreement ). One of JMP Group LLC 's members, JMP Holdings Inc. ( JMP Holdings ), was established in August 2004 to enable investors to invest through a corporate entity in the membership interests of JMP Group LLC. Shares of common stock of JMP Holdings were issued in a private offering in August 2004. JMP Holdings ' only significant asset until May 16, 2007 was its investment in JMP Group LLC, comprised of the member interests of JMP Group LLC, which had been purchased with the net proceeds received from issuance of JMP Holdings ' common stock.

In connection with its initial public offering, JMP Holdings changed its name to JMP Group Inc., and effective May 16, 2007 (the Reorganization Date ), members of JMP Group LLC exchanged the outstanding membership interests of JMP Group LLC for shares of common stock of JMP Group Inc. As a result of the exchange, JMP Group LLC became JMP Group Inc. 's wholly-owned subsidiary, and JMP Group Inc. completed its initial public offering on May 16, 2007. This reorganization (the Reorganization ) 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.

**2. Summary of Significant Accounting Policies**

*Basis of Presentation*

These financial statements and accompanying notes present the consolidated financial condition of the Successor as of December 31, 2008 and December 31, 2007. Consolidated results of operations and cash flows are presented for the Successor for the year ended December 31, 2008 and for the period from May 16, 2007 to December 31, 2007 (post-Reorganization) and for the Predecessor for the period January 1, 2007 through May 15, 2007 (pre-Reorganization) and for the year ended December 31, 2006. The Reorganization in connection with the initial public offering resulted in a combination of the Predecessor (JMP Group LLC) and JMP Holdings Inc. (now JMP Group Inc.), whose financial statements had not been combined with those of the Predecessor prior to May 16, 2007 for reporting purposes. Therefore, the Successor 's consolidated financial

**Table of Contents**

statements as of May 16, 2007 include the accounts of both JMP Group LLC and JMP Group Inc. The consolidated accounts of the Predecessor include the wholly-owned subsidiaries, JMP Securities and HCS, the indirectly wholly-owned subsidiary, JMP Capital LLC ( JMP Capital ), through which the Company conducts certain principal investing activities, and the partially-owned subsidiaries, JMP Realty Trust ( JMPRT ), Harvest Consumer Partners ( HCP ) and Harvest Technology Partners ( HTP ). The consolidated accounts of the Successor include the wholly-owned subsidiaries, JMP Securities and HCS, the indirectly wholly-owned subsidiary, JMP Capital, and the partially-owned subsidiaries, JMPRT, HCP (through November 30, 2008), HTP (through July 31, 2008) and Opportunity Acquisition Corp., 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. The Company is the sponsor of the SPAC. All material intercompany accounts and transactions have been eliminated in consolidation.

Minority interest in the consolidated statements of financial condition relates to the interest of third parties in JMPRT, HCP (through November 30, 2008), HTP (through July 31, 2008) and SPAC.

HCP had been consolidated in the Company s financial statements, with a minority interest being recorded, since its inception in January 2006 through November 30, 2008, due to the Company s and related parties ownership and resulting control of HCP. As a result of the admission of additional outside limited partners, effective December 1, 2008 HCP has been deconsolidated from the Company s financial statements and the investment in HCP is accounted for under the equity method of accounting.

HTP had been consolidated in the Company s financial statements, with a minority interest being recorded, since its inception in January 2006 through July 31, 2008, due to the Company s and related parties ownership and resulting control of HTP. As a result of the admission of additional outside limited partners, effective August 1, 2008 HTP has been deconsolidated from the Company s financial statements and the investment in HTP is accounted for under the equity method of accounting.

In addition to HTP and HCP, HCS currently manages several other asset management limited partnerships and is a general partner of each. The partnership agreements for these asset management funds provide for the right of the limited partners to remove the general partners by a simple majority vote of the unaffiliated limited partners. This right satisfies all of the criteria enumerated in paragraph 7.b. of Emerging Issues Task Force Issue No. 04-5 ( EITF 04-5 ), *Determining 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*, because the right is not subject to: (i) conditions that make it unlikely it will be exercisable; (ii) financial penalties or significant operational barriers to dissolution or liquidation of the funds; (iii) the absence of an adequate number of qualified replacement general partners; (iv) the absence of an explicit, reasonable mechanism by which the limited partners can call for and conduct a vote to exercise the right; and (v) the inability to obtain information necessary to exercise the right. As a result, consolidation of these asset management funds is not required.

JMPRT is 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%. JMPRT is managed by HCS. Because of its current ownership and management position, the Company consolidates JMPRT and records minority interest as of December 31, 2008. On January 2, 2009, all of the assets of JMP Realty Trust were transferred to Harvest Mortgage Opportunities Partners ( 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. 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 unaffiliated limited partners. This right satisfies all of the criteria enumerated in paragraph 7.b. of Emerging Issues Task Force Issue No. 04-5 ( EITF 04-5 ), *Determining 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*, as described above. As a result of these substantive kick-out rights, consolidation

---

## **Table of Contents**

of HMOP is not required as of January 2, 2009. In connection with the above reorganization, the Company deconsolidated JMPRT effective January 2, 2009.

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 from JMPRT, the Company's consolidated subsidiary. In addition, JMP Group Inc. invested \$4.5 million in the common stock of NYMT on February 14, 2008 through a private investment public equity (PIPE) transaction. Because of its current ownership and management position, the Company does not consolidate NYMT. As the Company accounts for its investment in NYMT in accordance with Statement of Financial Accounting Standards (SFAS) 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115* ( SFAS 159 ), disclosure of summarized financial information of NYMT in the Company's consolidated financial statements is required under paragraph 20d of APB Opinion No. 18. As the Company is an accelerated filer, and NYMT is deemed to be a significant subsidiary of the Company under such opinion but outside the control of the Company and a non-accelerated filer, the summarized financial information of NYMT will be disclosed by the Company in a 10-K/A, to be filed promptly after NYMT files its 10-K.

### *Use of Estimates*

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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.

### *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. 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



**Table of Contents**

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 collectibility 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.

*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 and our investment in NYMT. 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 years ended December 31, 2008, 2007 and 2006 are as follows:

	Year Ended December 31, 2008 Successor	Year Ended December 31, 2007		Year Ended December 31, 2006 Successor
		January 1, 2007 through May 15, 2007 Predecessor	May 16, 2007 through December 31, 2007 Successor	
Equity and other securities	\$ (6,766,367)	\$ (135,301)	\$ 659,496	\$ 2,163,542
Warrants and other investments	124,085	11,904	(25,009)	(95,754)
Investment partnerships	1,985,214	664,648	1,769,864	2,220,536
Total principal transaction revenues	\$ (4,657,068)	\$ 541,251	\$ 2,404,351	\$ 4,288,324

*Asset management fees*

Asset management fees 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

**Table of Contents**

the fee schedule for each fund and account. Base management fees are calculated at the investor level using their quarter-beginning capital balance adjusted for any contributions or withdrawals. The Company also earns incentive fees 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 funds, the highwater mark is calculated using the greatest value of a partner's capital account as of the end of any performance period, adjusted for contributions and 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, JMPRT and NYMT, and annually for the funds of hedge funds managed by HCS. Most of the incentive fees are currently 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.

*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 consists of proceeds from short sales deposited with brokers that cannot be removed unless the securities are delivered. Deposits consist of cash on deposit for operating leases as well as cash on deposit with JMP Securities' clearing broker. At each of December 31, 2008 and 2007, the Company had \$255,336 of cash on deposit with JMP Securities' clearing broker.

*Receivable from Clearing Broker*

The Company clears customer transactions through another broker-dealer on a fully disclosed basis. At each of December 31, 2008 and 2007, 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 \$78,579 and \$156,004 at December 31, 2008 and 2007, respectively. The following table summarizes activities in the allowance for doubtful accounts for the years ended December 31, 2008 and 2006 as well as for the period from January 1, 2007 through May 15, 2007 and the period from May 16, 2007 through December 31, 2007.

		<b>Balance at Beginning of Period</b>	<b>Additions/ Recoveries Charged to Expenses</b>	<b>Deductions</b>	<b>Balance at End of Period</b>
<b>Allowance for Doubtful Accounts</b>					
Year ended December 31, 2008	Successor	\$ 156,004	\$ 19,646	\$ (97,071)	\$ 78,579
May 16, 2007 through December 31, 2007	Successor	23,730	184,682	(52,408)	156,004
January 1, 2007 through May 15, 2007	Predecessor	294,905	(241,082)	(30,093)	23,730
Year ended December 31, 2006	Predecessor	69,416	424,504	(199,015)	294,905

---

**Table of Contents***Securities Sold Under Repurchase Agreements*

Securities sold under repurchase agreements are accounted for as collateralized financing transactions. The liabilities that result from these agreements are recorded in the Consolidated Statements of Financial Condition at the amounts at which the securities were sold. As of December 31, 2008 there were no securities sold under repurchase agreements. As of December 31, 2007, the Company pledged owned quasi-government agency securities as collateral for a repurchase agreement outstanding at such time. Interest expense is recorded on an accrual basis and is recorded in the Consolidated Statements of Operations.

*Fair Value of Financial Instruments*

The Company adopted Statement of Financial Accounting Standards ( SFAS ) No. 157, *Fair Value Measurements* as of January 1, 2008. This standard establishes a consistent framework for measuring fair value in accordance with generally accepted accounting principles ( GAAP ) and expands disclosures with respect to fair value measurements. SFAS 157 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. SFAS 157 defines fair value 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 a complete discussion of SFAS 157.

Substantially all of the Company's financial instruments, except for loans receivable, 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.

Under SFAS 157, 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 OTC equity securities and quasi-government agency securities. Other investments consist principally of 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 as set forth in the AICPA Audit and Accounting Guide: *Investment Companies*. 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.

---

## **Table of Contents**

Also included in other investments are convertible preferred stock of NYMT, and warrants on public and private common stock. 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 aforementioned fair value methods represent the Company's best estimate of exit price as defined by SFAS 157.

The Company adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115* ( SFAS 159 ) as of January 1, 2008. SFAS 159 provides companies with an option 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, SFAS 159 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

Dividends received during the year ended December 31, 2008 on NYMT stock of \$1.8 million are recorded in interest and dividends on our Consolidated Statement of Operations. There was no adjustment recorded to retained earnings related to the adoption of SFAS 159.

### *Loans Receivable*

Loans receivable include loans held-for-investment and are carried at their unpaid principal balance, net of any reserves for credit losses or deferred loan origination or commitment fees. For loans receivable classified as held-for-investment, we establish and maintain reserves for credit losses based on management's estimate of credit losses in our loans as of each reporting date. The Company records a reserve against loans receivable on a specific identification basis. Loans are charged off at the maturity of the loan 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 and Dividends 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.

### *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.

---

## **Table of Contents**

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.

### *Income Taxes*

The Successor, JMP Group Inc., accounts for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*, ( SFAS 109 ). SFAS 109 requires the recognition of deferred tax assets and liabilities based upon the temporary differences between the financial reporting and tax bases of the 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 necessity for a valuation allowance is assessed on a quarterly basis. The Predecessor, JMP Group LLC, was a limited liability company and was treated as a partnership for federal and state income tax purposes. Therefore, the Predecessor was not subject to federal and state income taxes, and accordingly, did not provide for the federal and state income taxes in the financial statements, but it was liable for state and local unincorporated business tax or franchise tax.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109* ( FIN 48 ), which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken on a tax return and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company adopted FIN 48 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.

### *Stock-Based Compensation*

Effective January 1, 2006, the Company adopted SFAS No. 123(R), *Share-Based Payment* ( SFAS 123R ), using the modified prospective method. Under that method of adoption, the provisions of SFAS 123R are generally only applied to share-based awards granted subsequent to adoption. Prior to January 1, 2006, the Company accounted for stock-based compensation under SFAS No. 123, *Accounting for Stock-Based Compensation*. SFAS 123R requires measurement of compensation cost for stock-based awards classified as equity at their fair value on the date of grant and the recognition of compensation expense over the service period for awards expected to vest. Such grants are recognized as expense over the service period, net of estimated forfeitures.

Stock-based compensation includes restricted stock units and stock options granted under the Company's 2007 Equity Incentive Plan, stock options granted under the Company's 2004 Equity Incentive Plan, as well as changes in Redeemable Class A member interests, which were membership interests issued to the Predecessor's employee members and recorded as a liability prior to May 16, 2007. On May 16, 2007, in connection with the Reorganization, the Redeemable Class A member interests were exchanged for shares of the Company's common stock and reclassified as equity.

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 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.

**Table of Contents***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.

**3. Recent Accounting Pronouncements**

SFAS No. 141(R), *Business Combinations* ( SFAS 141R ). In December 2007 the FASB issued SFAS 141R, which requires the acquiring entity in a business combination to recognize the full fair value of assets acquired and liabilities assumed in the transaction (whether a full or partial acquisition); establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; requires expensing of most transaction and restructuring costs; and requires the acquirer to disclose to investors and other users all of the information needed to evaluate and understand the nature and financial effect of the business combination. SFAS 141R applies to all transactions or other events in which the Company obtains control of one or more businesses, including those sometimes referred to as "true mergers" or "mergers of equals" and combinations achieved without the transfer of consideration, for example, by contract alone or through the lapse of minority veto rights. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company does not expect the adoption of SFAS 141R will have a material impact on its consolidated financial position or results of operations.

SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of Accounting Research Bulletin No. 51* ( SFAS 160 ). In December 2007 the FASB issued SFAS 160, which requires reporting entities to present noncontrolling (minority) interests as equity (as opposed to as a liability or mezzanine equity) and provides guidance on the accounting for transactions between an entity and noncontrolling interests. SFAS 160 applies to all fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008, except for the presentation and disclosure requirements which will be applied retrospectively for all periods presented. As discussed in Note 2 to the consolidated financial statements, the Company deconsolidated JMPRT effective January 2, 2009. The Company expects the deconsolidation of JMPRT and the adoption of SFAS 160 will have an immaterial effect on the financial statements for the first quarter of 2009.

SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ( SFAS 161 ). In March 2008, the FASB issued SFAS No. 161, which requires specific disclosures regarding the location and amounts of derivative instruments in the Company's financial statements; how derivative instruments and related hedged items are accounted for; and how derivative instruments and related hedged items affect the Company's financial position, financial performance, and cash flows. SFAS 161 is effective for the first interim or annual period beginning after November 15, 2008. Early application is permitted. The Company is currently evaluating the impact of adoption on its consolidated financial statements. The Company does not expect the adoption of SFAS 141R will have a material impact on its consolidated financial position or results of operations.

Financial Staff Positions ( FSP ) SFAS 157-2, *Effective Date of FASB Statement No. 157* ( FSP 157-2 ). In February 2008, the FASB issued FSP 157-2 which delays the effective date of SFAS 157, for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). FSP 157-2 partially defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. We do not believe the adoption of those provisions of SFAS 157, for which effectiveness was delayed by FSP 157-2, will have a material effect on our consolidated financial position or results of operations.

FSP SFAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* ( FSP 157-3 ). In October 2008, the FASB issued FSP 157-3, which clarifies the application SFAS No. 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP 157-3 was effective

---

## **Table of Contents**

immediately upon issuance and includes prior period financial statements that have not yet been issued, and therefore the Company is subject to the provisions of FSP-157-3 effective September 30, 2008. The implementation of FSP 157-3 did not affect the Company's fair value measurements of financial assets as of December 31, 2008 and had no impact on the results of operations or financial condition.

### **4. Financial Instruments**

As defined in SFAS 157, 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 or 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 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 is required to provide 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.

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 private equity fund: determined by net asset value provided by general partners;

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

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

In determining the appropriate levels, the Company performed a detailed analysis of the assets and liabilities that are subject to SFAS 157. 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.

**Table of Contents**

The following tables provide fair value information related to the Company's financial assets and liabilities at December 31, 2008 and 2007:

	Assets at Fair Value as of December 31, 2008			Total
	Level 1	Level 2	Level 3	
<b>Financial instruments owned, at fair value:</b>				
<b>Marketable securities owned:</b>				
Equity securities	\$ 11,976,235	\$	\$	\$ 11,976,235
Quasi-government agency securities	7,862,245			7,862,245
<b>Total marketable securities owned</b>	<b>\$ 19,838,480</b>	<b>\$</b>	<b>\$</b>	<b>\$ 19,838,480</b>
<b>Other investments:</b>				
General partner investment in hedge funds	\$	\$ 29,766,076	\$	\$ 29,766,076
General partner investment in funds of funds			3,678,073	3,678,073
<b>Total general partner investment in funds</b>		<b>29,766,076</b>	<b>3,678,073</b>	<b>33,444,149</b>
Limited partner investment in private equity fund			2,516,115	2,516,115
Investment in NYMT convertible preferred stock (1)			11,686,650	11,686,650
Warrants			307,341	307,341
<b>Total other investments</b>	<b>\$</b>	<b>\$ 29,766,076</b>	<b>\$ 18,188,179</b>	<b>\$ 47,954,255</b>

(1) Carried in the Consolidated Statements of Financial Condition at fair value in accordance with SFAS 159.

	Liabilities at Fair Value as of December 31, 2008			Total
	Level 1	Level 2	Level 3	
<b>Financial instruments sold, but not yet purchased, at fair value:</b>				
Marketable securities sold, but not yet purchased	\$ 5,677,683	\$	\$	\$ 5,677,683



**Table of Contents**

The following tables provide a reconciliation of the beginning and ending balances for the assets at fair value using significant unobservable inputs (Level 3) for the year ended December 31, 2008:

	Balance as of December 31, 2007	Purchases/ (sales), net	Total gains and (losses) (realized and unrealized)	Transfers in/(out) of Level 3	Balance as of December 31, 2008	Changes in unrealized gains and (losses) included in earnings related to assets still held at reporting date
General partner investment in funds of funds	\$ 4,460,971	\$	\$ (782,898)	\$	\$ 3,678,073	\$ (782,898)
Limited partner investment in private equity fund	2,282,582	205,600	27,933		2,516,115	27,933
Investment in NYMT convertible preferred stock		15,000,000	(3,313,350)		11,686,650	(3,313,350)
Warrants	300,503		6,838		307,341	6,838
<b>Total Level 3</b>	<b>\$ 7,044,056</b>	<b>\$ 15,205,600</b>	<b>\$ (4,061,477)</b>	<b>\$</b>	<b>\$ 18,188,179</b>	<b>\$ (4,061,477)</b>

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.

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.

Net transfers in/out of Level 3 represent existing financial assets that previously categorized at a higher level. Transfers into or 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.

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 were reported in Principal Transactions in the accompanying Consolidated Statements of Operations. The change in unrealized gains and losses are partially offset by realized gains and losses during the period.

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 table above. In addition, other investments include warrants, and two investments in funds managed by third parties.

**5. Loans Receivable**

Loans receivable at December 31, 2008 and 2007 is comprised of principal investments in the form of two loan notes and advances on two non-revolving credit note commitments.

Loans receivable includes 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% 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 December 31, 2008, the loan balance of \$855,763 was in default and we recorded a loan loss provision of

**Table of Contents**

\$427,882 in the third quarter of 2008. 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 Company has advanced an aggregate of \$3.8 million through December 31, 2008 on \$7.0 million in non-revolving credit note commitments. The loan notes and non-revolving credit note commitments bear interest at rates from 12% to 20% per annum with maturity dates ranging from one to five years. At December 31, 2008 and 2007, \$3.4 million and \$0 million of the aggregate amount of loans receivable were on non accrual status.

As of December 31, 2008, 2007 and 2006, the Company had a loan loss reserve of \$2.9 million, \$0 million and \$0 million, respectively, recorded against loans receivable. For any of the periods reported there were no direct write-downs charged to the loan loss reserve or amounts recovered. In addition, loans receivable are reported net of \$190,517 and \$0 in deferred loan origination and commitment fees as of December 31, 2008 and 2007.

The following table summarizes the loans receivable on the Consolidated Statements of Financial Condition at December 31, 2008 and 2007:

	December 31, 2008	December 31, 2007 Successor
Loans receivable	\$ 8,812,533	\$ 1,177,763
Reserve for credit losses	(2,896,149)	
Deferred loan fees	(190,517)	
Total loans receivable, net	\$ 5,725,867	\$ 1,177,763

The Company determined the fair value of loans receivable to be \$6.0 million and \$1.2 million as of December 31, 2008 and 2007 respectively, using anticipated cash flows, discounted at an appropriate market credit adjusted interest rate.

**6. Fixed Assets**

At December 31, 2008 and 2007, fixed assets consisted of the following:

	December 31, 2008	December 31, 2007 Successor
Furniture and fixtures	\$ 1,363,429	\$ 1,314,278
Computer and office equipment	3,247,255	2,994,005
Leasehold improvements	2,320,339	2,320,338
Software	490,194	479,931
Less: accumulated depreciation	(6,214,203)	(5,251,108)
Total fixed assets, net	\$ 1,207,014	\$ 1,857,444

Depreciation expense for the years ended December 31, 2008 and 2006 was \$963,095 and \$1,486,401, respectively. Depreciation expense for the period from January 1, 2007 through May 15, 2007 and the period from May 16, 2007 through December 31, 2007 was \$525,734 and \$688,490, respectively.

**7. 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.



**Table of Contents**

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 (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 commencing on March 31, 2009 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 remains available under the revolving portion of the Credit Agreement and the annual interest rate provisions of the Credit Agreement are 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.

The Company had undrawn amounts of \$21.0 million and \$30.0 million under the revolving line of credit with the Lender at December 31, 2008 and 2007, respectively. Each draw bears interest at the prime rate or LIBOR plus 2.25% after December 31, 2008 and at the prime rate less 1.25% or LIBOR plus 1.25% prior to that date.

The following table shows the repayment schedules for the principal portion of the term loan at December 31, 2008:

2009	\$ 1,736,170
2010	1,736,170
2011	1,736,170
2012	1,736,170
2013	1,736,170
Thereafter	
	\$ 8,680,850

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 December 31, 2008, the Company was in compliance with the loan covenants.

In connection with the Third Amendment, the Company paid to the Lender an amendment fee of \$74,202. The term loan is collateralized by a pledge of the Company's assets, including its interests in each of JMP Securities and HCS.

**8. Redeemable Class A Member Interests**

Redeemable Class A member interests were issued to employees of the Predecessor or its subsidiaries, and were entitled to share in the operating profits of the Predecessor. Redeemable Class A member interests were identical in nature to Class A common interests issued to non-employee Class A common members, except that Class A common members were not subject to insider rules, as defined in the Operating Agreement. These insider rules provided, among other items, that the Predecessor could redeem the employee member's interest in

**Table of Contents**

the Predecessor at any time, in whole or in part. In addition, the employee member could redeem his or her Redeemable Class A member interests in whole upon his or her resignation from providing services to the Predecessor. In either such case (and excluding terminations for cause or upon events of default), the redemption price would be either of the following at the Predecessor's election: (i) the capital account balance of the employee member or (ii) the percent of liquidation value represented by such interest based on a valuation formula. Redeemable Class A member interests and Class A common interests combined represented a fixed percentage equal to 84.5% of the Predecessor's membership interests. Increases and decreases in Redeemable Class A member interests resulted in offsetting decreases and increases in Class A common interests. As a result, Redeemable Class A member interests represented a variable percentage of the Predecessor's total membership interests. Redeemable Class A member interests represented 68.3% and 74.8% of the Predecessor's membership interests as of May 15, 2007 and December 31, 2006, respectively.

Redeemable Class A member interests were accounted for as stock-based compensation under SFAS 123 until December 31, 2005 and under SFAS 123R thereafter. Each holder of Redeemable Class A member interests was a party to the Operating Agreement, which provided that an employee member could elect to redeem all, but not less than all, of their Redeemable Class A member interests without the Predecessor's consent in connection with such person's resignation from the Predecessor. Because the redemption feature permitted the employee to avoid bearing the risks and rewards normally associated with equity share ownership for a reasonable period of time and gave the Predecessor no discretion to avoid transferring its cash or assets to the employee if the employee elected redemption, the Redeemable Class A member interests were classified as a liability by the Predecessor. The liability amount for the Redeemable Class A member interests was measured at each balance sheet date based on the redemption amounts for the Class A member interests. The redemption amount for an employee member was the amount the Predecessor was required to pay to an employee member upon resignation to redeem all his Redeemable Class A member interests as provided by the Operating Agreement. Management determined that member interests would be redeemed at an amount equal to the capital account of such employee member as maintained by the Predecessor. The pro rata share of the Predecessor's income allocated to Redeemable Class A member interests and any additional changes in the redemption amount of Redeemable Class A member interests were recorded as Income allocation and accretion Redeemable Class A member interests in the Predecessor's Consolidated Statements of Operations.

The following table summarizes the activity for the Redeemable Class A member interests for the period from January 1 through May 15, 2007:

Balance, December 31, 2006	\$ 12,913,769
Contributions	2,375,442
Redemptions	(3,479,800)
Income allocation and accretion	117,418,274
Distributions	(18,018,158)
Liability to equity exchange	(111,209,527)
 Balance, May 15, 2007	 \$

In connection with the Reorganization, the Redeemable Class A member interests were exchanged for shares of the Company's common stock and reclassified from liability to equity. The liability-to-equity exchange of the Redeemable Class A member interests required the Predecessor to mark the liability for the Redeemable Class A member interests to its fair market value and to record a non-cash expense related to the change in value. The Predecessor accounted for the exchange in its consolidated financial statements as follows:

The Predecessor recorded a one-time non-cash expense as a component of Income allocation and accretion Redeemable Class A member interests equal to \$112.9 million, which represented the difference between (a) the equity amount recorded for the shares of common stock issued in exchange for the Redeemable Class A member interests and (b) the carrying amount of the Redeemable Class A member interests prior to the Reorganization; and then

---

**Table of Contents**

The Predecessor recorded additional equity equal to \$111.2 million for the 10,109,957 shares of common stock exchanged for the Redeemable Class A member interests based on the initial public offering price of \$11.00 per share.

**9. Shareholders and Members Equity**

*Membership Classes and Capital Accounts Prior to the Reorganization*

A capital account was maintained for each member of JMP Group LLC until the Reorganization on May 16, 2007. The account was increased by capital contributions, allocable share of net profit and any items of income or gain and decreased by distributions, allocable share of net loss and any items of expense or loss.

*Class A Common Interests*

Class A common interests were issued to non-employee members, some of whom converted their Series A Convertible Preferred Units into Class A common interests in April 2004, and were entitled to share in the operating profits of the Predecessor. Class A common interests and Redeemable Class A member interests combined represented a fixed percentage equal to 84.5% of the Predecessor's membership interests. Increases and decreases in Class A common interests resulted in offsetting decreases and increases in Redeemable Class A member interests. As a result, Class A common interests represented a variable percentage of the Predecessor's total membership interests. Class A common interests represented 16.2% and 9.7% of the Predecessor's membership interests as of May 15, 2007 and December 31, 2006, respectively.

*Class B Common Interests*

On August 18, 2004, the Predecessor issued Class B common interests in a private offering to qualified institutional buyers and accredited investors. The Class B common interests outstanding were equal to 15.5% of the total outstanding membership interests of the Predecessor at the closing of the private offering. Class B common interests were identical in nature to Class A common interests, except for: (i) the anti-dilution provision, which provided that the Class B membership interests would not be reduced by additional issuances of Class A common interests or Redeemable Class A member interests, and (ii) demand registration rights which gave the holders of Class B common interests an annual vote to cause a corporate conversion of the Predecessor, which would have resulted in registration of the converted common interests with the SEC with subsequent listing on a national exchange or the over-the-counter market. Class B common interests represented 15.5% of the Predecessor's membership interests as of May 15, 2007 and December 31, 2006.

*Common Stock*

Shares of JMP Holdings Inc. common stock were originally sold in a private offering in August 2004 to enable certain non-employee investors to invest through a corporate entity in the membership interests of JMP Group LLC. JMP Holdings in turn owned, as a member of JMP Group LLC, Class B common interests on a one-for-one basis for each share of common stock. Effective May 16, 2007, in connection with the Company's initial public offering, the members of JMP Group LLC exchanged the outstanding membership interests of JMP Group LLC for shares of common stock of JMP Holdings, and JMP Holdings changed its name to JMP Group Inc. In the initial public offering, the Company sold and issued 7,199,864 shares of its common stock, raising \$73.1 million of proceeds, net of the Company's direct offering costs.

*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, the Company's board of directors authorized the buyback of an additional 2.0 million shares during the subsequent eighteen months.

---

**Table of Contents**

During the year ended December 31, 2008, the Company repurchased 1,178,417 shares of the Company's common stock at an average price of \$5.87 per share for an aggregate purchase price of \$ 6,921,783. The repurchases made during the year ended December 31, 2008 included 300,367 shares repurchased in connection with employee stock plans, whereby the Company's shares were tendered by employees for the payment of applicable statutory withholding taxes.

The timing and amount of any future 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.

**10. 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*

On July 18, 2006, a total of 50,000 options to purchase Class B common interests were granted to two employees who were not members of the Predecessor. The options have an exercise price of \$12.50 per share, an exercise period of seven years and will vest and become exercisable 25% at each of the four subsequent anniversaries of the grant date. The fair value of the employee option grants has been estimated on the date of grant using the Black-Scholes Option Valuation methodology with the following assumptions: expected life of options of 4.70 years, risk-free interest rate of 5.10%, dividend yield of 4.4% and volatility of 28.0%. The dividend estimate was based on the recurring base dividend and special dividend estimated for 2006 and deemed to be representative for future periods. The Predecessor used the volatility of comparable public companies to estimate the volatility. The fair value of the options granted in July 2006 is \$2.03 for each option or \$101,500 for all options granted.

On December 19, 2006, a total of 1,370,000 options to purchase Class B common interests were granted to a number of employee members and non-members of the Predecessor. The options have an exercise price of \$12.50 per share, and an exercise period of seven years. These options became vested and immediately exercisable on an accelerated basis in connection with the Reorganization. The fair value of each employee option grant was estimated on the grant date as \$3.01 by using the Black-Scholes Option Valuation methodology with the following assumptions: expected life of options of 4.75 years, risk-free interest rate of 4.67%, dividend yield of 4.0% and volatility of 31.2%. The dividend estimate was based on the recurring base dividend and special dividend estimated for 2006 and deemed to be representative for future periods. The Predecessor used the volatility of comparable public companies to estimate the volatility.

In January, 2007, a total of 75,000 options to purchase Class B common interests were granted to several members and non-member employees of the Predecessor. The options have an exercise price of \$12.50 per share, and an exercise period of seven years. These options became vested and immediately exercisable on an

**Table of Contents**

accelerated basis in connection with the Reorganization. The fair value of each employee option was estimated on the grant date as \$3.01 by using the Black-Scholes Option Valuation methodology with the following assumptions: expected life of options of 4.75 years, risk-free interest rate of 4.67%, expected dividend yield of 4.0% and volatility of 31.2%.

In connection with the Reorganization, all outstanding options to purchase Class B common interests were exchanged into options of the Successor's common stock and the Company accelerated the vesting of 1,335,000 stock options granted in December 2006 and January 2007.

The following table summarizes the stock option activity for the years ended December 31, 2008, 2007 and 2006:

	Year Ended December 31, 2008		Year Ended December 31, 2007		Year Ended December 31, 2006	
	Shares Subject to Option	Weighted Average Exercise Price	Shares Subject to Option	Weighted Average Exercise Price	Shares Subject to Option	Weighted Average Exercise Price
Balance, beginning of year	2,384,890	\$ 11.47	2,639,940	\$ 11.45	1,242,140	\$ 10.20
Granted		\$	75,000	\$ 12.50	1,420,000	\$ 12.50
Exercised		\$		\$		\$
Forfeited	(31,450)	\$ 10.00	(239,038)	\$ 11.15	(22,200)	\$ 10.00
Expired	(266,450)	\$ 12.20	(91,012)	\$ 12.33		\$
Balance, end of period	2,086,990	\$ 11.40	2,384,890	\$ 11.47	2,639,940	\$ 11.45
Options exercisable at end of period	1,826,393	\$ 11.56	1,844,745	\$ 11.85	342,485	\$ 10.73

The following table summarizes the stock options outstanding as well as stock options vested and exercisable as of December 31, 2008 and 2007:

Range of Exercise Prices		Number Outstanding	As of December 31, 2008			Options Vested and Exercisable			
			Options Outstanding Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Aggregate Intrinsic Value	Number Exercisable	Options Vested and Exercisable Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Average Intrinsic Value
\$10.00	\$15.00	2,086,990	5.80	\$ 11.40	\$	1,826,393	5.66	\$ 11.56	\$

Range of Exercise Prices		Number Outstanding	As of December 31, 2007			Options Vested and Exercisable			
			Options Outstanding Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Aggregate Intrinsic Value	Number Exercisable	Options Vested and Exercisable Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Average Intrinsic Value
\$10.00	\$15.00	2,384,890	6.75	\$ 11.47	\$	1,844,745	6.44	\$ 11.85	\$



**Table of Contents**

In accordance with the requirements of SFAS 123R and FIN 28, *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans*, the Successor and the Predecessor recognize stock-based compensation expense for stock options over the graded vesting period of the options using the accelerated attribution method, resulting in compensation expense as follows:

	Year Ended December 31, 2008 Successor	Year Ended December 31, 2007		Year Ended December 31, 2006 Predecessor
		January 1, 2007 through May 15, 2007 Predecessor	May 16, 2007 through December 31, 2007 Successor	
Compensation expense recognized related to stock options	\$ 38,729	\$ 740,120	\$ 3,251,904	\$ 177,908

Included in compensation expense in the table above is stock-based compensation expense of \$3,211,835 that the Successor recognized in connection with the initial public offering in May 2007, resulting from the acceleration of the vesting of 1,335,000 stock options. The Company recognized income tax expense (benefits) of \$274,192 and \$(1,522,006) related to stock options for the years ended December 31, 2008 and 2007, respectively. There were no stock options exercised in the years ended December 31, 2008, 2007 and 2006. As a result, the Company did not recognize any current income tax benefits from exercise of stock options during these periods.

As of December 31, 2008, there was \$30,798 of unrecognized compensation expense related to stock options expected to be recognized over a weighted average period of 1.34 years.

*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 January 16, 2008, the Company awarded 1,558,246 RSUs to all eligible employees as part of the Company's 2007 annual bonus compensation process. The total fair value of these awards on grant date was \$9,128,218. The fair value per unit was based on the market value of the underlying stock on grant date, discounted for post vesting restrictions and future dividends not expected to be received by unvested RSUs over the vesting period. The valuation methodology included an initial assumed expected dividend yield of 3.0%, and a risk-free discount rate of 2.57%. Discounts for post-vesting restrictions were calculated using the Finnerty Model, which was developed to estimate the impact of transfer restrictions on stock prices based on empirical studies.

These RSUs were awarded in three separate tranches. The first tranche of 773,210 units were scheduled to vest 50% on each of the first and second anniversary of the grant date, and the second tranche of 170,104 units were scheduled to vest 50% on the second anniversary and 25% on each of the third and fourth anniversary of the grant date. On December 22, 2008, the Company's Board of Directors approved amendments to, and the immediate acceleration of these units. These units are subject to a lockup period until January 15, 2012. The third tranche of 614,930 units were not accelerated and will vest 100% on the fourth anniversary of the grant date and is subject to a lockup period until January 15, 2014.

**Table of Contents**

On May 8, 2008, the Company awarded 36,000 RSUs to two new outside directors. Of these units, 33% vested immediately on grant date, with the remaining balance vesting 33% on each of the two subsequent anniversaries. The fair value of these units was \$6.80 per share and was calculated based on the market value of the underlying stock on grant date, discounted for future dividends expected not to be received by unvested RSUs over the vesting period. There is no lockup period for these units.

In 2008, a total of 75,233 additional RSUs were granted to employees. 60,000 of these units will vest on the fourth anniversary of the grant date. The remaining units consist of one tranche of 11,818 units which were accelerated on December 22, 2008 and are subject to a lock-up period until August 15, 2012, and one tranche of 3,415 units which will vest 25%, 35% and 40% on the second, third and fourth anniversary of the grant date and are not subject to lock-up. The fair values of these units were calculated based on the market values of the underlying stock on the respective grant dates, discounted for future dividends expected not to be received by unvested RSUs over the vesting period.

On December 22, 2008, the Company's Board of Directors approved amendments to, and the immediate acceleration of the vesting of 990,862 RSUs that were granted in 2007 and 2008 to 78 employees, including each of the Company's named executive officers, under the Company's 2007 Equity Incentive Plan. These vested RSUs remain subject to the terms and conditions of the applicable restricted stock unit agreement, which include lockup provisions and potential forfeiture if the holder breaches certain covenants, including non-competition covenants.

The following table summarizes the RSU activity for the years ended December 31, 2008 and 2007:

	Year Ended December 31, 2008		Year Ended December 31, 2007	
	Restricted Stock Units	Weighted Average Grant Date Fair Value	Restricted Stock Units	Weighted Average Grant Date Fair Value
Balance, beginning of year	1,943,336	\$ 10.30		\$
Granted	1,669,477	5.84	2,096,438	10.30
Vested	(1,022,062)	6.26	(44,642)	10.00
Forfeited	(325,459)	9.55	(108,460)	10.43
Balance, end of period	2,265,292	\$ 8.94	1,943,336	\$ 10.30

The Company recognizes compensation expense over a graded vesting period using the accelerated attribution method. The following table provides compensation expenses recognized on RSUs for the years ended December 31, 2008, 2007 and 2006:

	Year Ended December 31, 2008 Successor	Year Ended December 31, 2007		Year Ended December 31, 2006 Predecessor
		January 1, 2007 through May 15, 2007 Predecessor	May 16, 2007 through December 31, 2007 Successor	
Compensation expense recognized related to RSUs	\$ 11,080,957	\$ 76,129	\$ 4,201,980	\$

Included in the table above is compensation expense related to RSUs awarded in connection with the initial public offering date of \$3,900,188 and \$3,992,583 and compensation expense related to the RSUs awarded after the initial public offering of \$7,180,769 and \$285,526 for the years ended December 31, 2008 and 2007, respectively. In addition, compensation expense for the year ended December 31, 2008 included additional compensation expense related to future periods of \$2,567,408 as a result of the accelerated vesting of RSUs described above. The Company recognized income tax benefits of \$3,964,015 and \$1,743,158 related to RSUs for the years ended December 31, 2008 and 2007, respectively.

**Table of Contents**

As of December 31, 2008 and 2007, there was \$11,848,379 and \$16,203,802 of unrecognized compensation expense related to RSUs expected to be recognized over a weighted average period of 2.50 years and 3.25 years, respectively.

**11. Net Income (Loss) per Share of Common Stock and Net Income (Loss) per Unit Attributable to Class A and Class B Common Interests**

The Company calculates its net income (loss) per share, and the Predecessor calculated its net income (loss) per unit attributable to Class A and Class B common interests, in accordance with SFAS No. 128, *Earnings per Share*.

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 in which 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.

Basic net income (loss) per unit for the Predecessor is calculated by dividing net income (loss) attributable to Class A and Class B common interests by the weighted average number of units of Class A and Class B common interests outstanding for the reporting period. Diluted net income (loss) per unit is computed similarly, except that it reflects the potential dilutive impact that would occur if potentially dilutive securities were exercised or converted into membership interests. To determine an average market price for applying the treasury stock method, the Predecessor estimated the fair market value of the Predecessor's Class B common interests based on trades of Class B common interests between third parties and earnings multiples of publicly traded comparables.

The computations of basic and diluted net income (loss) per share and basic and diluted net income (loss) per unit for the years ended December 31, 2008, 2007 and 2006 are shown in the table below:

	Year Ended December 31, 2008 Successor	Year Ended December 31, 2007			Year Ended December 31, 2006 Predecessor	Class A Common	Class B Common
		January 1, 2007 through May 15, 2007 Predecessor	May 16, 2007 through December 31, 2007 Successor				
<b>Numerator:</b>							
Net (loss) income	\$ (10,646,340)	\$ (56,860,528)	\$ (54,836,785)	\$ 6,539,810	\$ 1,301,528	\$ 2,086,119	
<b>Denominator:</b>							
Basic weighted average Class A and Class B common units outstanding		2,384,881	2,300,000		1,434,968	2,300,000	
Basic weighted average shares outstanding	20,210,888			21,829,544			
Effect of potential dilutive securities:							
Options to purchase Class B common interests					33,149	53,132	
Options to purchase common shares							
Restricted stock units				86,614			
Diluted weighted average Class A and Class B common units outstanding		2,384,881	2,300,000		1,468,117	2,353,132	
Diluted weighted average shares outstanding	20,210,888			21,916,158			
Net (loss) per unit attributable to Class A and Class B common interests							
Basic		\$ (23.84)	\$ (23.84)		\$ 0.91	\$ 0.91	
Diluted		\$ (23.84)	\$ (23.84)		\$ 0.89	\$ 0.89	
Net (loss) income per share							

Edgar Filing: JMP Group Inc. - Form 10-K

Basic	\$	(0.53)	\$	0.30
Diluted	\$	(0.53)	\$	0.30

---

## **Table of Contents**

Stock options to purchase 2,242,828 shares of common stock for the year ended December 31, 2008 were anti-dilutive and, therefore, were not included in the computation of diluted weighted-average common units or diluted weighted-average common shares outstanding. In addition, restricted stock units for 3,285,568 shares of common stock for the year ended December 31, 2008 were anti-dilutive and, therefore, were not included in the computation of diluted weighted-average common shares outstanding.

Stock options to purchase 2,473,869 shares of common stock for the period May 16 through December 31, 2007, respectively, as well as 1,474,677 Class B common interests for the period January 1 through May 15, 2007, were anti-dilutive and, therefore, were not included in the computation of diluted weighted-average common units or diluted weighted-average common shares outstanding.

For the year ended December 31, 2006, the options to purchase Class B common interests had a dilutive effect on the net income per unit for both Class A common interests and Class B common interests because the additional Class B common interests underlying the options reduces the net income attributable to both classes of outstanding common interests on a pro rata basis. The total dilutive impact of 86,281 additional shares was therefore allocated based on the relative membership percentage represented by Class A common interests and Class B common interests and resulted in allocation of 33,149 diluted shares to Class A common interests and 53,132 diluted shares to Class B common interests. In addition, 812,691 options to purchase Class B common interests for the year ended December 31, 2006 were anti-dilutive. As such, these were excluded from the computation of diluted common shares or diluted common units outstanding.

For the year ended December 31, 2006 there was no Series A convertible preferred units outstanding.

## **12. 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 years ended December 31, 2008, 2007 and 2006.

## **13. Income Taxes**

Prior to the Reorganization, all income and losses of JMP Group LLC, the Predecessor, were reportable by the individual members of JMP Group LLC in accordance with the Internal Revenue Code of the United States. The U.S. federal and state income taxes payable by the members based upon their share of JMP Group LLC's net income have not been reflected in the accompanying financial statements for periods prior to the Reorganization. JMP Holdings Inc., being a C-corporation from its inception in August 2004, was subject to U.S. federal and state income taxes on its taxable income, and in accordance with SFAS No. 109, *Accounting for Income Taxes* ( SFAS 109 ), accounted for income taxes in its separate financial statements. SFAS 109 requires the recognition of deferred tax assets and liabilities based upon the temporary differences between the financial reporting and tax bases of the Company's 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.

As a result of the Reorganization, JMP Group Inc. (formerly JMP Holdings Inc.) succeeded to the business of the Predecessor. The Company is subject to U.S. federal and state income taxes on all taxable income earned subsequent to May 15, 2007 by JMP Group LLC and its subsidiaries. As a result of the Reorganization, upon the change of tax status of JMP Group LLC from a partnership to a wholly-owned disregarded entity of the Company, the Company recognized a one-time tax benefit of \$4,084,993 in connection with the establishment of net deferred tax items of \$10,169,354. For the year ended December 31, 2008, the Company recorded a total tax benefit of \$5,700,952 which included a benefit adjustment of \$353,805 to the \$4,084,993 one-time tax benefit recorded in 2007.

**Table of Contents**

The components of the Company's income tax benefit for the year ended December 31, 2008 and the period from May 16, 2007 through December 31, 2007 is as follows:

	Year ended December 31, 2008 Successor	May 16, 2007 through December 31, 2007 Successor
Federal	\$ 1,987,814	\$
State	522,978	
<b>Total current income tax expense</b>	<b>2,510,792</b>	
Federal	(6,469,206)	(2,131,542)
State	(1,742,538)	(405,072)
<b>Total deferred benefit</b>	<b>(8,211,744)</b>	<b>(2,536,614)</b>
<b>Total benefit from income taxes</b>	<b>\$ (5,700,952)</b>	<b>\$ (2,536,614)</b>

A reconciliation of the statutory U.S. federal income tax rate to the Successor's effective tax rate for the year ended December 31, 2008 and the period from May 16, 2007 through December 31, 2007 is as follows:

	Year ended December 31, 2008 Successor	May 16, 2007 through December 31, 2007 Successor
Tax at federal statutory tax rate	35.00%	35.00%
State income tax, net of federal tax benefit	5.75%	5.75%
Adjustment for permanent items	(0.26)%	(1.10)%
<b>Rate before one-time events</b>	<b>40.49%</b>	<b>39.65%</b>
Deferred tax asset written off related to options and RSUs	(5.14)%	2.62%
Adjustment for prior year taxes	(1.21)%	(3.59)%
Deferred tax recognized upon JMP Group LLC's tax status change	2.16%	(102.05)%
Income tax expense of JMPRT (1)	(1.43)%	
<b>Effective tax rate (benefit)</b>	<b>34.87%</b>	<b>(63.37)%</b>

(1) JMPRT is not consolidated for tax reporting purposes and files its own federal and state tax returns. As of December 31, 2008 and 2007, the components of deferred tax assets and liabilities are as follows:

	December 31, 2008 Successor	December 31, 2007 Successor
Deferred tax assets:		
Accrued compensation and related expenses	\$ 102,933	\$ 93,006
Equity based compensation	4,807,904	3,175,251

Edgar Filing: JMP Group Inc. - Form 10-K

Depreciation and amortization	351,782	244,378
Reserves and allowances	1,265,708	296,910
Net unrealized capital losses	3,294,800	326,476
Net operating loss		6,228
Interest in JMPRT (1)	515,798	4,016
Other	274,841	
Total deferred tax assets	10,613,766	4,146,265
Deferred tax liabilities:		
Investments in partnerships	224,204	(1,517,658)
Other		(2,380)
Total deferred tax liabilities	224,204	(1,520,038)
Valuation allowance		
Net deferred tax assets (2)	\$ 10,837,970	\$ 2,626,227

**Table of Contents**

(1) JMPRT is consolidated for financial reporting purposes but not for tax reporting purposes.

(2) The Successor had a net deferred tax asset balance of \$242,933 on May 16, 2007.

The Company determined that a valuation allowance against deferred tax assets was not necessary as of December 31, 2008 based on the assessment of future ordinary income and capital gains and that the deferred tax assets will, more-likely-than-not, be realized.

The Company has analyzed the filing positions in its federal and state tax returns for all open tax years 2005 through 2008. 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 did not record a cumulative effect adjustment related to the adoption of FIN 48, and no liabilities for uncertain income tax positions have been recorded pursuant to FIN 48.

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.

**14. Commitments and Contingencies**

The Company leases office space in California, Illinois, Georgia, Massachusetts and New York under various operating leases. Rental expense for the years ended December 31, 2008 and 2006 was \$1,905,248 and \$1,845,005, respectively. Rental expense for the period of January 1, 2007 through May 15, 2007 and the period of May 16, 2007 through December 31, 2007 was \$699,774 and \$1,184,173, respectively.

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

2009	\$ 2,276,033
2010	2,250,368
2011	1,625,711
2012	
2013	
Thereafter	
	\$ 6,152,112

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 December 31, 2008 and 2007, 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 December 31, 2008 and December 31, 2007, the Company had \$255,336 of cash on deposit with JMP Securities' clearing broker. Furthermore, the marketable securities owned may be hypothecated or borrowed by the clearing broker.

The Company had, as of December 31, 2008, a capital commitment of \$3.2 million in non-revolving credit note commitments (individual advances under these commitments are subject to approval from the Company).



---

## **Table of Contents**

### **15. 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 \$39,761,064 and \$51,329,438, which were \$38,681,564 and \$50,583,243 in excess of the required net capital of \$1,079,500 and \$746,195 at December 31, 2008 and 2007, respectively. JMP Securities' ratio of aggregate indebtedness to net capital was 0.24 to 1 and 0.22 to 1 at December 31, 2008 and 2007, respectively.

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.

### **16. Related Party Transactions**

The Company earns base management fees and incentive fees from serving as investment advisor for various entities, including corporations, partnerships and offshore investment companies. The Company may also own an investment in these companies. Base management fees earned from these activities were \$5,534,542, \$2,832,969 and \$2,724,999 for the years ended December 31, 2008, 2007 and 2006, respectively. Also, HCS earned incentive fees of \$5,961,498, \$2,297,864, \$1,790,252 from these entities for the years ended December 31, 2008, 2007 and 2006, respectively.

### **17. 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 December 31, 2008 had settled with no resulting material liability to the Company. For the year ended December 31, 2008 and 2007, the Company had no material loss due to counterparty failure, and has no obligations outstanding under the indemnification arrangement as of December 31, 2008.

The Company is engaged in various investment banking and brokerage activities whose counterparties primarily include broker-dealers, banks and other financial institutions. 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.

### **18. Litigation**

Due to the nature of its business, the Company is subject to various threatened or filed legal actions. For example, because we act as an underwriter or a financial advisor in the ordinary course of our business, we have in the past been, currently are and may in the future be subject to class action claims that seek substantial damages.

In addition, defending employment and other claims against us could require the expenditure of substantial resources. Litigation is inherently uncertain and the ultimate resolution of such litigation could be determined by factors outside of our control. 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.

---

**Table of Contents**

**19. 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.

**20. Business Segments**

The Company's business results are categorized into the following two segments: Broker-Dealer and Asset Management. 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 and JMPRT as well as the Company's principal investments in public and private securities.

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.

The Company's segment information for the years ended December 31, 2008, 2007 and 2006 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.

**Table of Contents**

Corporate operating expenses include income allocation and accretion Redeemable Class A member interests and interest expense payable on Redeemable Class A member interests. These expenses are not allocated to the segments, because Redeemable Class A member interests are capital to the Company as a whole and the income allocation is based on the Company's consolidated results. The Company evaluates segment results based on revenue and segment operating income before minority interest and taxes.

**Segment Operating Results**

Management believes that the following information provides a reasonable representation of each segment's contribution to revenues, income and assets:

	Year Ended December 31, 2008 Successor	Year Ended December 31, 2007 January 1, 2007 through May 15, 2007 Predecessor	Year Ended December 31, 2007 May 16, 2007 through December 31, 2007 Successor	Year Ended December 31, 2006 Predecessor
<b>Broker-Dealer</b>				
Revenues	\$ 63,177,534	\$ 30,114,149	\$ 58,877,157	\$ 78,980,582
Operating expenses	76,478,593	24,013,904	56,422,109	66,830,159
Segment operating income (loss)	\$ (13,301,059)	\$ 6,100,245	\$ 2,455,048	\$ 12,150,423
Segment assets	\$ 85,558,277	N/A	\$ 104,091,052	\$ 74,544,932
<b>Asset Management</b>				
Revenues	\$ 13,411,957	\$ 2,257,862	\$ 6,615,962	\$ 7,825,277
Operating expenses	16,956,594	1,925,177	4,820,884	3,960,329
Segment operating income (loss)	\$ (3,544,637)	\$ 332,685	\$ 1,795,078	\$ 3,864,948
Segment assets	\$ 67,063,611	N/A	\$ 80,620,211	\$ 29,154,071
<b>Corporate</b>				
Operating expenses	\$	\$ 117,962,855	\$	\$ 12,200,126
<b>Consolidated Entity</b>				
Revenues	\$ 76,589,491	\$ 32,372,011	\$ 65,493,119	\$ 86,805,859
Operating expenses	93,435,187	143,901,936	61,242,993	82,990,614
Income (loss) before minority interest and income tax expense (benefit)	\$ (16,845,696)	\$ (111,529,925)	\$ 4,250,126	\$ 3,815,245
Total assets	\$ 152,621,888	N/A	\$ 184,711,263	\$ 103,699,003

**21. Subsequent Events**

On January 2, 2009, all of the assets of JMP Realty Trust were transferred to Harvest Mortgage Opportunities Partners ( HMOP ), a newly-formed hedge fund managed by HCS. HMOP is a limited partnership and formed for the purpose 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. 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 unaffiliated limited partners. This right satisfies all of the criteria enumerated in paragraph 7.b. of Emerging Issues Task Force Issue No. 04-5 ( EITF 04-5 ), *Determining 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*. As a result of these substantive kick-out rights, consolidation of HMOP is not required as of

**Table of Contents**

January 2, 2009. In connection with the above reorganization, the Company deconsolidated JMPRT effective January 2, 2009.

On February 5, 2009, as a part of the 2008 annual compensation program, the Company also granted 800,000 RSUs to certain employees for long term incentive purposes. These units will vest on the fourth anniversary of grant date and are not subject to a lockup period. Separately, the Company awarded 31,950 RSUs to new hire employees on the same date, with the same vesting terms. The total fair value of both awards on grant date was \$3,519,149. The fair value per unit was based on the market value of the underlying stock on grant date, discounted for future dividends not expected to be received by unvested RSUs over the vesting period.

On February 5, 2009, as a part of the 2008 annual compensation program, the Company granted 87,076 restricted shares to certain employees. These shares vested immediately with a two-year restricted period subject to non-competition, non-solicitation and certain other covenants. The total fair value of this grant was \$435,382 and the fair value per unit was based on the market value of the underlying stock on grant date.

On February 13, 2009, the Company entered into a joint venture with China Merchants Securities Co. (HK) Ltd., a securities brokerage and investment banking firm, through the Company's \$2 million investment in HuaMei Capital Company, Inc (HuaMei). HuaMei provides cross-border merger and acquisition and strategic advisory services to US and Chinese companies.

On March 3, 2009, the Company's board of directors declared a cash dividend of \$0.01 per share of common stock for the fourth quarter of 2008 to be paid on April 3, 2009 to common shareholders of record on March 20, 2009. Additionally, the Company's board of directors authorized the repurchase of up to 0.5 million additional shares of the Company's outstanding common stock during the next twelve months. Under its previous authorization, the Company had repurchased 1.1 million shares of stock since March 2008, leaving approximately 0.9 million shares still to be repurchased through September 2009. In total, the Company is now authorized to repurchase approximately 1.4 million of its outstanding common shares.

**22. Selected Quarterly Financial Data (Unaudited)**

The following represents the Company's unaudited quarterly results for the years ended December 31, 2008 and 2007. These quarterly results were prepared in accordance with GAAP and reflect all adjustments that are in the opinion of management, necessary for a fair statement of the results.

	Three Months Ended March 31, 2008 Successor	Three Months Ended June 30, 2008 Successor	Three Months Ended September 30, 2008 Successor	Three Months Ended December 31, 2008 Successor
Revenues	\$ 19,751,581	\$ 21,614,348	\$ 15,846,074	\$ 19,377,488
Expenses:				
Compensation and benefits	12,589,219	13,834,582	17,724,046	21,597,993
Other expenses	6,699,567	6,728,639	6,361,327	7,899,814
Total expenses	19,288,786	20,563,221	24,085,373	29,497,807
Income (loss) before minority interest and income tax (benefit) expense	462,795	1,051,127	(8,239,299)	(10,120,319)
Minority interest	(56,431)	210,981	(369,208)	(283,746)
Income tax (benefit) expense	(159,574)	645,676	(2,971,386)	(3,215,668)
Net income (loss)	\$ 678,800	\$ 194,470	\$ (4,898,705)	\$ (6,620,905)
Net income per common share:				
Basic	\$ 0.03	\$ 0.01	\$ (0.24)	\$ (0.33)
Diluted	\$ 0.03	\$ 0.01	\$ (0.24)	\$ (0.33)

**Table of Contents**

	<b>Three Months Ended March 31, 2007 Predecessor</b>	<b>April 1 through May 15, 2007 Predecessor</b>	<b>May 16 through June 30, 2007 Successor</b>	<b>Three Months Ended September 30, 2007 Successor</b>	<b>Three Months Ended December 31, 2007 Successor</b>
Revenues	\$ 21,913,617	\$ 10,458,394	\$ 12,655,737	\$ 21,007,876	\$ 31,829,506
Expenses:					
Compensation and benefits	12,830,903	5,562,436	11,745,347	13,027,380	20,844,791
Other expenses	8,121,953	117,386,644	3,557,640	5,534,920	6,532,915
<b>Total expenses</b>	<b>20,952,856</b>	<b>122,949,080</b>	<b>15,302,987</b>	<b>18,562,300</b>	<b>27,377,706</b>
Income (loss) before minority interest and income tax (benefit) expense	960,761	(112,490,686)	(2,647,250)	2,445,576	4,451,800
Minority interest	135,478	31,910	(74,463)	303,721	17,672
Income tax (benefit) expense			(5,338,839)	1,006,408	1,795,817
<b>Net income (loss)</b>	<b>\$ 825,283</b>	<b>\$ (112,522,596)</b>	<b>\$ 2,766,052</b>	<b>\$ 1,135,447</b>	<b>\$ 2,638,311</b>
Net income per common share:					
Basic	\$	\$	\$ 0.13	\$ 0.05	\$ 0.12
Diluted	\$	\$	\$ 0.12	\$ 0.05	\$ 0.12
Net income (loss) per unit Class A common interests:					
Basic	\$ 0.18	\$ (23.99)	\$	\$	\$
Diluted	\$ 0.17	\$ (23.99)	\$	\$	\$
Net income (loss) per unit Class B common interests:					
Basic	\$ 0.18	\$ (23.99)	\$	\$	\$
Diluted	\$ 0.17	\$ (23.99)	\$	\$	\$

**Table of Contents**

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

None.

**Item 9A. Controls and Procedures**

Our management, with the participation of the Chairman and Chief Executive Officer and the Chief Financial Officer (our principal executive officer and principal financial officer, respectively), has evaluated our disclosure controls and procedures as of the end of the year 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 year covered by this report, our disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by us in the reports filed or submitted by us under the Securities Exchange Act of 1934, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by us in such reports is accumulated and communicated to our management, including the Chairman and Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

There was no change in our internal control over financial reporting that occurred during the quarter ended December 31, 2008 covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information**

None.

**Table of Contents**

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

The information required by this item will be contained in the sections of our Proxy Statement for the 2009 Annual Meeting of Stockholders, captioned Board of Directors, Compensation of Directors, and Section 16(a) Beneficial Ownership Reporting Compliance, which is incorporated herein by reference.

**Item 11. Executive Compensation**

Information with respect to this item will be contained in the sections of our Proxy Statement for the 2009 Annual Meeting of Stockholders, captioned Executive Compensation which is incorporated herein by reference.

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

Information with respect to this item will be contained in the sections of our Proxy Statement for the 2009 Annual Meeting of Stockholders, captioned Ownership of Certain Beneficial Owners and Management and Equity Compensation Plan Information which is incorporated herein by reference.

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

Information with respect to this item will be contained in the sections of our Proxy Statement for the 2009 Annual Meeting of Stockholders, captioned Related Party Transactions and Director Independence which is incorporated herein by reference.

**Item 14. Principal Accountant Fees and Services**

Information with respect to this item will be contained in the sections of our Proxy Statement for the 2009 Annual Meeting of Stockholders, captioned Fees Paid to Independent Registered Public Accounting Firm which is incorporated herein by reference.

**Table of Contents**

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules**

(a) Documents filed as part of this Form 10-K:

1. Consolidated Financial Statements

The consolidated financial statements required to be filed in the Form 10-K are listed on the pages below. The required financial statements appear on pages 73 through 105 herein.

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

<u>Report of Independent Registered Public Accounting Firm</u>	72
<u>Consolidated Statements of Financial Condition as of December 31, 2008 and 2007</u>	73
<u>Consolidated Statements of Operations for the year ended December 31, 2008, the period from May 16, 2007 to December 31, 2007, the period from January 1, 2007 to May 15, 2007 and the year ended December 31, 2006</u>	74
<u>Consolidated Statements of Changes in Stockholders' Equity for the year ended December 31, 2008, the period from May 16, 2007 to December 31, 2007, the period from January 1, 2007 to May 15, 2007 and the year ended December 31, 2006</u>	75
<u>Consolidated Statements of Cash Flows for the year ended December 31, 2008, the period from May 16, 2007 to December 31, 2007, the period from January 1, 2007 to May 15, 2007 and the year ended December 31, 2006</u>	76
<u>Notes to Consolidated Financial Statements</u>	77

2. Financial Statement Schedules

Separate financial statement schedules have been omitted either because they are not applicable or because the required information is included in the consolidated financial statements.

3. Exhibits

See the Exhibit Index beginning on page 110 for a list of the exhibits being filed or furnished with or incorporated by reference into this Annual Report on Form 10-K.



**Table of Contents**

**SIGNATURES**

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

Date: March 3, 2009

JMP Group Inc.  
Registrant

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

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

Date: March 3, 2009

<b>Signature</b>	<b>Title</b>
<i>/s/</i> JOSEPH A. JOLSON <b>Joseph A. Jolson</b>	Director, Chairman and Chief Executive Officer  (principal executive officer)
<i>/s/</i> THOMAS B. KILIAN <b>Thomas B. Kilian</b>	Chief Financial Officer  (principal financial and accounting officer)
<i>/s/</i> HARRIS S. BARTON <b>Harris S. Barton</b>	Director
<i>/s/</i> CRAIG R. JOHNSON <b>Craig R. Johnson</b>	Director
<i>/s/</i> KENNETH M. KARMIN <b>Kenneth M. Karmin</b>	Director
<i>/s/</i> MARK L. LEHMANN <b>Mark L. Lehmann</b>	Director
<i>/s/</i> CARTER D. MACK <b>Carter D. Mack</b>	Director
<i>/s/</i> PETER T. PAUL <b>Peter T. Paul</b>	Director
<i>/s/</i> EDWARD J. SEBASTIAN <b>Edward J. Sebastian</b>	Director
<i>/s/</i> GLENN H. TONGUE <b>Glenn H. Tongue</b>	Director



**Table of Contents**

**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>
2.1	Reorganization and Exchange Agreement (incorporated by reference to Exhibit 2.1 to the Registrant's registration statement on Form S-1/A (No. 333-140689) filed on May 8, 2007).
3.1	Fourth Amended and Restated Certificate of Incorporation of JMP Group Inc. (incorporated by reference to Exhibit 3.1 to the Registrant's quarterly report with respect to the quarter ended March 31, 2007 on Form 10-Q filed on June 21, 2007).
3.2	Amended and Restated Bylaws of JMP Group Inc. (incorporated by reference to Exhibit 3.2 to the Registrant's quarterly report with respect to the quarter ended March 31, 2007 on Form 10-Q filed on June 21, 2007).
4.1	Form of Certificate Representing Shares of Common Stock (incorporated by reference to Exhibit 4.1 to the Registrant's registration statement on Form S-1/A (No. 333-140689) filed on April 19, 2007).
10.1	Amendment Number Three to Credit Agreement, dated As of December 31, 2008 (incorporated by referenced to Exhibit 10.1 to the Registrant's current report on Form 8-K filed on January 7, 2009)
10.1.1	Form of Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10.1.1 to the Registrant's registration statement on Form S-1/A (No. 333-140689) filed on May 8, 2007).
10.2	Form of Partners' Exchange Agreement (incorporated by reference to Exhibit 10.2 to the Registrant's registration statement on Form S-1/A (No. 333-140689) filed on May 8, 2007).
10.3	Credit Agreement Dated August 3, 2006 (incorporated by reference to Exhibit 10.3 to the Registrant's registration statement on Form S-1/A (No. 333-140689) filed on March 27, 2007).
10.5	Form of Indemnification Agreement (incorporated by reference to Exhibit 10.5 to the Registrant's registration statement on Form S-1/A (No. 333-140689) filed on March 27, 2007).
10.8	Lease Agreement, Dated December 18, 2003 (incorporated by reference to Exhibit 10.8 to the Registrant's registration statement on Form S-1 (No. 333-140689) filed on February 14, 2007).
10.8.1	First Amendment Letter to Lease Dated May 10, 2004 (incorporated by reference to Exhibit 10.8.1 to the Registrant's registration statement on Form S-1/A (No. 333-140689) filed on May 8, 2007).
10.9	Sublease, Dated December 18, 2003 (incorporated by reference to Exhibit 10.9 to the Registrant's registration statement on Form S-1 (No. 333-140689) filed on February 14, 2007).
10.9.1	Consent to Sublease, Dated December 18, 2003 (incorporated by reference to Exhibit 10.9.1 to the Registrant's registration statement on Form S-1 (No. 333-140689) filed on February 14, 2007).
10.9.2	Letter Amendment to Consent to Sublease, Dated May 10, 2004 (incorporated by reference to Exhibit 10.9.2 to the Registrant's registration statement on Form S-1 (No. 333-140689) filed on February 14, 2007).
10.10	JMP Group Inc. 2007 Senior Executive Bonus Plan (incorporated by reference to Exhibit 10.10 to the Registrant's registration statement on Form S-1/A (No. 333-140689) filed on May 8, 2007).
10.11	JMP Group LLC 2004 Equity Incentive Plan (incorporated by reference to Exhibit 10.11 to the Registrant's registration statement on Form S-1/A (No. 333-140689) filed on May 8, 2007).
10.12	Form of Stock Pledge Agreement (incorporated by reference to Exhibit 10.12 to the Registrant's registration statement on Form S-1/A (No. 333-140689) filed on May 8, 2007).
10.13.1	Notice of Restricted Stock Unit Agreement (Principal Portion of Award) (incorporated by referenced to Exhibit 10.13.1 to the Registrant's quarterly report with respect to the quarter ended March 31, 2008 on Form 10-Q filed May 9, 2008)

**Table of Contents**

<b>Exhibit Number</b>	<b>Description</b>
10.13.2	Notice of Restricted Stock Unit Agreement (Discount Portion of Award) (incorporated by referenced to Exhibit 10.13.2 to the Registrant's quarterly report with respect to the quarter ended March 31, 2008 on Form 10-Q filed May 9, 2008)
10.13.3	Notice of Restricted Stock Unit Agreement (Four-Year Cliff) (incorporated by referenced to Exhibit 10.13.3 to the Registrant's quarterly report with respect to the quarter ended March 31, 2008 on Form 10-Q filed May 9, 2008)
10.13.4	Form of 2008 Compensation Program Election Form and Participation Agreement (incorporated by referenced to Exhibit 10.13.4 to the Registrant's Current Report on Form 8-K filed February 5, 2009)
10.13.5	Form of Restricted Stock Bonus Award Agreement (incorporated by referenced to Exhibit 10.13.4 to the Registrant's Current Report on Form 8-K filed February 5, 2009)
10.14	Summary of Compensation Arrangements with Executive Officers (incorporated by referenced to Exhibit 10.14 to the Registrant's quarterly report with respect to the quarter ended March 31, 2008 on Form 10-Q filed May 9, 2008)
10.15	Amendment Number Two to Credit Agreement (CNB) (incorporated by referenced to Exhibit 10.15 to the Registrant's quarterly report with respect to the quarter ended March 31, 2008 on Form 10-Q filed May 9, 2008)
21	List of Subsidiaries of JMP Group Inc. (incorporated by reference to Exhibit 21 to the Registrant's registration statement on Form S-1/A (No. 333-140689) filed on May 8, 2007).
23.1*	Consent of PricewaterhouseCoopers LLP
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\* Filed herewith