JMP Group Inc.
Form 10-Q
November 01, 2012

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

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2012 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	20-1450327
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

600 Montgomery Street, Suite 1100, San Francisco, California 94111
(Address of principal executive offices)

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

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

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

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

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

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

The number of shares of the Registrant's common stock, par value $0.001 per share, outstanding as of October 31, 2012 was 22,649,943.

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AVAILABLE INFORMATION

JMP Group Inc. is required to file current, annual and quarterly reports, proxy statements and other information required by the Securities Exchange Act of 1934, as amended (the "Exchange Act"), with the Securities and Exchange Commission (the "SEC"). 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. provides 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 free of charge on the Investor Relations section of its website located at http://www.jmpg.com. These filings will become available as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC.

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

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

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

	September 30, 2012	December 31, 2011
Assets		
Cash and cash equivalents	$59,690	$70,363
Restricted cash and deposits (includes cash on deposit with clearing broker of $150 and $255 at September 30, 2012 and December 31, 2011, respectively)	63,461	48,440
Receivable from clearing broker	1,113	1,138
Investment banking fees receivable, net of allowance for doubtful accounts of zero at September 30, 2012 and December 31, 2011	9,254	2,539
Marketable securities owned, at fair value	14,482	24,309
Incentive fee receivable	477	2,097
Other investments (of which $75,785 and $51,517 are recorded at fair value at September 30, 2012 and December 31, 2011, respectively)	76,288	51,706
Loans held for sale	3,219	2,957
Small business loans, net of allowance for loan losses	24,645	7,477
Loans collateralizing asset-backed securities issued, net of allowance for loan losses	402,241	410,770
Interest receivable	1,575	1,358
Fixed assets, net	2,810	2,285
Deferred tax assets	16,650	26,221
Other assets	8,577	8,961
Total assets	$684,482	$660,621
Liabilities and Equity		
Liabilities:		
Marketable securities sold, but not yet purchased, at fair value	$11,383	$10,921
Accrued compensation	32,517	38,143
Asset-backed securities issued	406,461	381,556
Interest payable	647	651
Note payable	22,657	19,222
Deferred tax liability	12,736	23,214
Other liabilities	24,271	30,430
Total liabilities	510,672	504,137
Redeemable Non-controlling Interest	161	50
Commitments and Contingencies		
JMP Group Inc. Stockholders' Equity		
Common stock, $0.001 par value, 100,000,000 shares authorized; 22,780,052 and 22,409,644 shares issued at September 30, 2012 and December 31, 2011,	23	22

respectively; 22,705,994 and 21,947,353 shares outstanding at September 30, 2012 and December 31, 2011, respectively		
Additional paid-in capital	126,632	132,944
Treasury stock, at cost, 74,058 and 462,291 shares at September 30, 2012 and December 31, 2011, respectively	(420)	(3,011)
Accumulated other comprehensive loss	(68)	(102)
Accumulated deficit	(5,376)	(148)
Total JMP Group Inc. stockholders' equity	120,791	129,705
Nonredeemable Non-controlling Interest	52,858	26,729
Total equity	173,649	156,434
Total liabilities and equity	$684,482	$660,621

See accompanying notes to consolidated financial statements.

JMP Group Inc.

Consolidated Statements of Financial Condition - (Continued)
(Unaudited)
(Dollars in thousands, except per share data)

Assets and liabilities of consolidated variable interest entities ("VIE") included in total assets and total liabilities above:

	September 30, 2012	December 31, 2011
Restricted cash	$50,800	$36,137
Loans held for sale	3,219	2,957
Loans collateralizing asset-backed securities issued, net of allowance for loan losses	402,241	410,770
Interest receivable	1,164	1,191
Deferred tax assets	4,367	8,567
Other assets	55	40
Total assets of consolidated VIE	$461,846	$459,662
Asset-backed securities issued	406,461	381,556
Interest payable	589	601
Deferred tax liability	11,761	21,791
Other liabilities	3,253	2,042
Total liabilities of consolidated VIE	$422,064	$405,990

The asset-backed securities issued (“ABS”) by the VIE are limited recourse obligations payable solely from cash flows of the loans collateralizing them and related collection and payment accounts pledged as security. Accordingly, only the assets of the VIE can be used to settle the obligations of the VIE.

See accompanying notes to consolidated financial statements.

JMP Group Inc.

Consolidated Statements of Operations
(Unaudited)
(In thousands, except per share data)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Revenues				
Investment banking	$12,218	$10,048	$38,010	$40,332
Brokerage	5,371	6,898	16,275	19,370
Asset management fees	3,755	5,694	10,721	14,893
Principal transactions	(1,955)	(6,290)	12,309	(106)
Gain on sale and payoff of loans	204	1,373	2,643	14,981
Net dividend (expense) income	(2)	322	(25)	870
Other income	365	1,026	3,507	2,536
Non-interest revenues	19,956	19,071	83,440	92,876
Interest income	8,333	7,451	24,051	25,799
Interest expense	(10,087)	(9,024)	(29,573)	(26,460)
Net interest expense	(1,754)	(1,573)	(5,522)	(661)
Provision for loan losses	(71)	(123)	(1,812)	(477)
Total net revenues after provision for loan losses	18,131	17,375	76,106	91,738
Non-interest expenses				
Compensation and benefits	17,358	15,970	55,833	66,218
Administration	1,645	2,246	4,604	5,060
Brokerage, clearing and exchange fees	902	1,275	2,656	3,552
Travel and business development	746	1,107	2,435	2,568
Communications and technology	909	1,013	2,642	2,929
Occupancy	814	774	2,352	2,216
Professional fees	967	806	2,324	2,311
Depreciation	227	192	642	529
Impairment loss on purchased management contract	-	-	-	700
Other	67	105	282	343
Total non-interest expenses	23,635	23,488	73,770	86,426
Income (loss) before income tax expense	(5,504)	(6,113)	2,336	5,312
Income tax (benefit) expense	(894)	(1,410)	(1,547)	2,354
Net (loss) income	(4,610)	(4,703)	3,883	2,958
Less: Net (loss) income attributable to nonredeemable non-controlling interest	(2,934)	(3,080)	6,832	(475)
Net (loss) income attributable to JMP Group Inc.	$(1,676)	$(1,623)	$(2,949)	$3,433
Net (loss) income attributable to JMP Group Inc. per common share:				
Basic	$(0.07)	$(0.07)	$(0.13)	$0.15

Diluted	$(0.07)	$(0.07)	$(0.13)	$0.15
Dividends declared per common share	$0.035	$0.03	$0.10	$0.075
Weighted average common shares outstanding:				
Basic	22,737	22,354	22,564	22,152
Diluted	22,830	22,493	22,977	22,634

See accompanying notes to consolidated financial statements.

JMP Group Inc.
Consolidated Statements of Comprehensive Income
(Unaudited)
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net (loss) income	$ (4,610)	$ (4,703)	$ 3,883	$ 2,958
Other comprehensive income (loss)				
Unrealized gain (loss) on cash flow hedge, net of tax	14	(12)	34	(51)
Comprehensive (loss) income	(4,596)	(4,715)	3,917	2,907
Less: Comprehensive (loss) income attributable to non-controlling interest	(2,934)	(3,080)	6,832	(475)
Comprehensive (loss) income attributable to JMP Group Inc.	$ (1,662)	$ (1,635)	$ (2,915)	$ 3,382

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

	JMP Group Inc. Stockholders' Equity							
	Common Stock		Treasury	Additional Paid-In	Accumulated	Accumulated Other Comprehensive	Nonredeemable Non-controlling	Total
	Shares	Amount	Stock	Capital	Deficit	Loss	Interest	Equity
Balance, December 31, 2011	22,410	$22	$(3,011)	$132,944	$ (148)	$ (102)	$ 26,729	$156,434
Net income (loss)	-	-	-	-	(2,949)	-	6,832	3,883
Additonal paid-in capital - stock-based compensation	-	-	-	(9,319)	-	-	-	(9,319)
Cash dividends paid to shareholders	-	-	-	-	(2,279)	-	-	(2,279)
Purchases of shares of common stock for treasury	-	-	(4,839)	-	-	-	-	(4,839)
Reissuance of shares of common stock from treasury	-	-	7,430	267	-	-	-	7,697
Common stock issued	402	1	-	2,740	-	-	-	2,741
Retirement of shares	(32)	-	-	-	-	-	-	-
	-	-	-	-	-	-	(5,272)	(5,272)

Distributions to non-controlling interest holders								
Unrealized gain on cash flow hedge, net of tax	-	-	-	-	-	34	-	34
Capital contributions from non-controlling interest holders (1)	-	-	-	-	-	-	24,569	24,569
Balance, September 30, 2012	22,780	$23	$(420)	$126,632	$(5,376)	$(68)	$52,858	$173,649

(1) Excludes $161 thousand attributable to redeemable non-controlling interest.

See accompanying notes to consolidated financial statements.

JMP Group Inc.

Consolidated Statements of Cash Flows
(Unaudited)
(In thousands)

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Cash flows from operating activities:		
Net income	$ 3,883	$ 2,958
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Provision for loan losses	1,812	477
Accretion of deferred loan fees	(928)	(1,225)
Amortization of liquidity discount, net	21,631	14,880
Gain on sale and payoff of loans	(2,643)	(14,981)
Change in other investments:		
Fair value	(7,091)	553
Incentive fees reinvested in general partnership interests	(2,216)	(2,477)
Realized gain on other investments	(2,280)	(187)
Impairment loss on purchased management contract	-	700
Depreciation and amortization of fixed assets	642	529
Stock-based compensation expense	582	1,138
Deferred income taxes	(907)	(614)
Net change in operating assets and liabilities:		
(Increase) decrease in interest receivable	(217)	121
(Increase) decrease in receivables	(8,685)	1,186
Decrease (increase) in marketable securities	9,827	(1,033)
(Increase) decrease in restricted cash (excluding restricted cash reserved for lending activities), deposits and other assets	(22)	11,022
Increase in marketable securities sold, but not yet purchased	462	289
(Decrease) increase in interest payable	(4)	7
Decrease in accrued compensation and other liabilities	(11,195)	(5,115)
Net cash provided by operating activities	2,651	8,228
Cash flows from investing activities:		
Purchases of fixed assets	(1,167)	(1,268)
Purchases of other investments	(19,873)	(10,158)
Sales of other investments	10,478	4,643
Funding of loans collateralizing asset-backed securities issued	(122,542)	(220,991)
Funding of small business loans	(18,459)	(1,985)
Sale and payoff of loans collateralizing asset-backed securities issued	111,681	193,350
Principal receipts on loans collateralizing asset-backed securities issued	25,453	21,712
Principal receipts on loans held for investment	-	813
Net change in restricted cash reserved for lending activities	(14,615)	5,952
Net cash used in investing activities	(29,044)	(7,932)

See accompanying notes to consolidated financial statements.

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

Cash flows from financing activities:		
Proceeds from borrowing on line of credit, net of repayment	9,987	-
Repayment of note payable	(6,552)	(4,803)
Cash dividends paid to stockholders	(2,279)	(1,673)
Purchases of shares of common stock for treasury	(4,839)	(5,037)
Capital contributions of redeemable non-controlling interest holders	110	11
Capital contributions of nonredeemable non-controlling interest holders	24,565	9,254
Distributions to non-controlling interest shareholders	(5,272)	(1,107)
Excess tax benefit related to stock-based compensation	-	(335)
Net cash provided by (used in) financing activities	15,720	(3,690)
Net decrease in cash and cash equivalents	(10,673)	(3,394)
Cash and cash equivalents, beginning of period	70,363	71,114
Cash and cash equivalents, end of period	$59,690	$67,720
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	$4,669	$4,009
Cash paid during the period for taxes	$839	$6,005
Non-cash investing and financing activities:		
Issuance of shares of common stock from treasury related to vesting of restricted stock units and exercises of stock options	$7,430	$5,530

See accompanying notes to consolidated financial statements.

JMP GROUP INC.

Notes to Consolidated Financial Statements
September 30, 2012
(Unaudited)

1. Organization and Description of Business

JMP Group Inc., together with its subsidiaries (collectively, the “Company”), is an independent investment banking and asset management firm headquartered in San Francisco, California. JMP Group Inc. completed its initial public offering ("IPO") on May 16, 2007, and also completed a corporate reorganization in connection with the IPO. The Company conducts its brokerage business through JMP Securities LLC (“JMP Securities”), its asset management business through Harvest Capital Strategies LLC (“HCS”), its corporate credit business through JMP Credit Corporation (“JMP Credit”), JMP Credit Advisors LLC (“JMPCA”), Harvest Capital Credit LLC ("HCC"), formed in the third quarter of 2011, and certain principal investments through JMP Capital LLC (“JMP Capital”). The above entities are wholly-owned subsidiaries, with the exception of HCC which is a partly-owned subsidiary. JMP Securities is a U.S. registered broker-dealer under the Exchange Act and is a member of the Financial Industry Regulatory Authority (“FINRA”). JMP Securities operates as an introducing broker and does not hold funds or securities for, or owe any money or securities to customers and does not carry accounts for customers. All customer transactions are cleared through another broker-dealer on a fully disclosed basis. HCS is a registered investment advisor under the Investment Advisers Act of 1940, as amended, and provides investment management services for sophisticated investors in investment partnerships and other entities managed by HCS. Effective April 7, 2009, through JMP Credit, the Company completed the acquisition of 100% of the membership interests of Cratos Capital Partners, LLC (which changed its name to JMP Credit Advisors LLC on July 12, 2010) and its subsidiaries, including Cratos Capital Management, LLC (collectively, “Cratos”), a manager of collateralized loan obligations (“CLO”), together with certain securities of Cratos CLO I, Ltd. (“Cratos CLO”). For further details regarding the ownership of Cratos CLO, see Note 2 - Summary of Significant Accounting Policies in the Company's annual report for year ended December 31, 2011 (the "2011 10-K").

2. Summary of Significant Accounting Policies

Basis of Presentation

These consolidated financial statements and related notes are unaudited and have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. These consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements and notes thereto included in its 2011 10-K. These consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) that are, in the opinion of management, necessary for the fair statement of the results for the interim periods. The results of operations for any interim period are not necessarily indicative of the results to be expected for a full year.

The consolidated accounts of the Company include the wholly-owned subsidiaries, JMP Securities, HCS, JMP Capital, JMP Credit, JMPCA, and the partly-owned subsidiaries Harvest Growth Capital LLC (“HGC”) (effective April 1, 2010), Cratos CLO and HCC (effective August 18, 2011). All material intercompany accounts and transactions have been eliminated in consolidation. Non-controlling interest on the Consolidated Statements of Financial Condition at September 30, 2012 and December 31, 2011 relate to the interest of third parties in the partly-owned subsidiaries.

See Note 2 - Summary of Significant Accounting Policies in the Company's 2011 10-K for the Company's significant accounting policies.

3. Recent Accounting Pronouncements

Accounting Standards Update (“ASU”) 2011-05: Presentation of Other Comprehensive Income was issued to increase the prominence of other comprehensive income in financial statements, by eliminating the option to report other comprehensive income in the statement of changes in stockholder's equity. The standard requires comprehensive income to be reported in either a single statement that presents the components of net income, the components of other comprehensive income, and total comprehensive income, or in two consecutive statements. The standard also required separate line items on the income statement for reclassification adjustments of items out of accumulated other comprehensive income into net income. This standard was scheduled to be effective for periods starting after December 15, 2011. However, ASU 2011-12: Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income deferred the effective date of the requirement to present separate line items on the income statement for reclassification adjustments of items out of accumulated other comprehensive income into net income. The adoption of ASU 2011-05 resulted in the disclosure of other comprehensive income as a stand alone statement outside the statement of changes in stockholder's equity.

ASU 2011-04: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in GAAP and International Financial Reporting Standards ("IFRS"). The adoption of ASU 2011-04 gives fair value the same meaning between GAAP and IFRS, and improves consistency of disclosures relating to fair value. As a result of this standard, an entity is required to add more robust disclosures regarding the sensitivity of fair value measurements categorized within Level 3 of the fair value hierarchy. The standard is effective for interim periods beginning after December 15, 2011. The adoption of ASU 2011-04 resulted in additional disclosures within Note 4.

4. Fair Value Measurements

The following tables provide fair value information related to the Company’s financial instruments at September 30, 2012 and December 31, 2011:

(In thousands)	At September 30, 2012				
		Fair Value			
	Carrying Value	Level 1	Level 2	Level 3	Total
Assets:					
Marketable securities owned	$14,482	14,482	-	-	14,482
Other investments	75,785	1,424	29,229	45,132	75,785
Loans held for sale (1)	3,219	-	3,236	-	3,236
Small business loans, net of allowance for loan losses (2), (3)	24,645	-	5,915	19,812	25,727
Loans collateralizing asset-backed securities issued, net of allowance for loan losses (2), (4)	402,241	-	406,416	10,948	417,364
Long term receivable (5)	1,372	-	-	1,597	1,597
Total assets:	$521,744	$15,906	$444,796	$77,489	$538,191
Liabilities:					
Marketable securities sold, but not yet purchased	$11,383	$11,383	$-	$-	$11,383
Asset-backed securities issued (2)	406,461	-	397,805	-	397,805
Note payable (2)	22,657	-	22,657	-	22,657
Total liabilities:	$440,501	$11,383	$420,462	$-	$431,845

(1) The Company carries the financial instrument at the lower of cost or market.
(2) The Company carries the financial instrument at cost.
(3) See Note 5 for valuation process and sensitivity of the fair value measurement to changes in unobservable inputs.
(4) See Note 6 for valuation process and sensitivity of the fair value measurement to changes in unobservable inputs.
(5) Long-term receivable represents the receivable purchased from Sanctuary Wealth Services LLC ("Sanctuary") on April 3, 2013 (see Investments at Cost in Note 4) and is included in Other Assets on the consolidated statement of financial condition.

(In thousands)	At December 31, 2011				
		Fair Value			
	Carrying Value	Level 1	Level 2	Level 3	Total
Assets:					
Marketable securities owned	$24,309	$24,309	$-	$-	$24,309
Other investments	51,517	3,434	24,072	24,011	51,517
Loans held for sale (1)	2,957	-	2,979	-	2,979
Small business loans, net of allowance for loan losses (2), (3)	7,477	-	3,790	4,000	7,790
Loans collateralizing asset-backed securities issued, net of allowance for loan losses (2), (4)	410,770	-	405,386	14,769	420,155
Total assets:	$497,030	$27,743	$436,227	$42,780	$506,750
Liabilities:					

Marketable securities sold, but not yet purchased	$10,921	$10,921	$-	$-	$10,921
Asset-backed securities issued (2)	381,556	-	375,902	-	375,902
Note payable (2)	19,222	-	19,222	-	19,222
Total liabilities:	$411,699	$10,921	$395,124	$-	$406,045

(1) The Company carries the financial instrument at the lower of cost or market.
(2) The Company carries the financial instrument at cost.
(3) See Note 5 for valuation process and sensitivity of the fair value measurement to changes in unobservable inputs.
(4) See Note 6 for valuation process and sensitivity of the fair value measurement to changes in unobservable inputs.

Other Investments

The following tables provide information related to the Company's other investments held at fair value at September 30, 2012 and December 31, 2011:

(In thousands)	September 30, 2012			
	Level 1	Level 2	Level 3	Total
Other investments:				
General partner investment in hedge funds	$-	$28,479	$-	$28,479
General partner investment in funds of funds	-	-	105	105
Total general partner investment in funds	-	28,479	105	28,584
Limited partner investment in private equity fund	-	-	2,444	2,444
Warrants and other	-	-	669	669
Equity securities in HGC and JMP Capital	1,424	750	41,914	44,088
Total other investments	$1,424	$29,229	$45,132	$75,785

(In thousands)	December 31, 2011			
	Level 1	Level 2	Level 3	Total
Other investments:				
General partner investment in hedge funds	$-	$24,072	$-	$24,072
General partner investment in funds of funds	-	-	102	102
Total general partner investment in funds	-	24,072	102	24,174
Limited partner investment in private equity fund	-	-	2,585	2,585
Warrants and other	-	-	617	617
Equity securities in HGC and JMP Capital	3,426	-	20,707	24,133
Interest rate cap	8	-	-	8
Total other investments	$3,434	$24,072	$24,011	$51,517

The tables below provide a reconciliation of the beginning and ending balances for the assets held at fair value using significant unobservable inputs (Level 3) for the three months ended September 30, 2012 and 2011.

(In thousands)	Balance as of June 30, 2012	Purchases	Sales	Total gains (losses) - realized and unrealized included in earnings (1)	Transfers out of Level 3	Balance as of September 30, 2012	Unrealized gains/(losses) included in earnings related to assets still held at reporting date
General partner investment in funds of funds	$104	-	-	1	-	$105	$ 1
Limited partner investment in private equity fund	2,741	25	-	(322)	-	2,444	(322)
Warrants	782	-	-	(113)	-	669	(113)
Equity securities in HGC and JMP Capital	43,400	2,771	-	(3,957)	(300)	41,914	(3,957)
Total Level 3 assets	$47,027	$2,796	$-	$(4,391)	$(300)	$45,132	$ (4,391)

(1) No Level 3 asset gains (losses) are included in other comprehensive income. All realized and unrealized gains (losses) related to Level 3 assets are included in earnings.

(In thousands)	Balance as of June 30, 2011	Purchases	Sales	Total losses - realized and unrealized included in earnings (1)	Transfers in/(out) of Level 3	Balance as of September 30, 2011	Unrealized losses included in earnings related to assets still held at reporting date

General partner investment in funds of funds	$105	$-	$-	$(3)	$-	$102	$(3)
Limited partner investment in private equity fund	3,184	32	-	(292)	-	2,924	(292)
Warrants	1,061	-	-	(623)	-	438	(623)
Equity securities in HGC and JMP Capital	17,200	-	-	(2,616)	-	14,584	(2,616)
Total Level 3 assets	$21,550	$32	$-	$(3,534)	$-	$18,048	$(3,534)

(1) No Level 3 asset gains (losses) are included in other comprehensive income. All realized and unrealized gains (losses) related to Level 3 assets are included in earnings.

The tables below provide a reconciliation of the beginning and ending balances for the assets held at fair value using significant unobservable inputs (Level 3) for the nine months ended September 30, 2012 and 2011.

(In thousands)	Balance as of December 31, 2011	Purchases	Sales	Total gains (losses) - realized and unrealized included in earnings (1)	Transfers out of Level 3	Balance as of September 30, 2012	Unrealized gains/(losses) included in earnings related to assets still held at reporting date
General partner investment in funds of funds	$102	$-	$-	$3	$-	$105	$3
Limited partner investment in private equity fund	2,585	25	(49)	(117)	-	2,444	(117)
Warrants and other	617	2	-	50	-	669	50
Equity securities in HGC and JMP Capital	20,707	17,273	-	5,147	(1,213)	41,914	5,147
Total Level 3 assets	$24,011	$17,300	$(49)	$5,083	$(1,213)	$45,132	$5,083

(1) No Level 3 asset gains (losses) are included in other comprehensive income. All realized and unrealized gains (losses) related to Level 3 assets are included in earnings.

(In thousands)	Balance as of December 31, 2010	Purchases	Sales	Total losses - realized and unrealized included in earnings (1)	Transfers out of Level 3	Balance as of September 30, 2011	Unrealized losses included in earnings related to assets still held at reporting date
General partner investment in funds of funds	$102	$-	$-	$-	$-	$102	$-
Limited partner investment in private equity fund	3,063	32	-	(171)	-	2,924	(171)
Warrants and other	532	15	-	(109)	-	438	(109)
Equity securities in HGC and JMP Capital	11,245	8,342	-	(880)	(4,123)	14,584	(880)
Total Level 3 assets	$14,942	$8,389	$-	$(1,160)	$(4,123)	$18,048	$(1,160)

(1) No Level 3 asset gains (losses) are included in other comprehensive income. All realized and unrealized gains (losses) related to Level 3 assets are included in earnings.

Purchases and sales of Level 3 assets shown above were recorded at fair value at the date of the transaction.

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

Transfers between levels of the fair value hierarchy result from changes in the observability of fair value inputs used in determining fair values for different types of financial assets and are recognized at the beginning of the reporting period in which the event or change in circumstances that caused the transfer occurs.

There were no transfers in/out of Level 1 during the three and nine months ended September 30, 2012. Transfers into Level 2 from Level 3 were $0.3 million and $1.2 million during the three and nine months ended September 30, 2012. These transfers were a result of the observability of fair value associated with the equity securities in HGC and JMP Capital. Transfers into Level 1 from Level 2 were $1.1 million for both the three and nine months ended September 30, 2011, reflecting the fair value measurement of this investment now being based on quoted market price without further adjustment. A $4.1 million transfer into Level 2 from Level 3 for the three months ended September 30, 2011 was a result of the observability of fair value associated with the equity securities in HGC and JMP Capital. There were no other transfers in/out of Level 2 or Level 3 during either the three and nine months ended September 30, 2012 and 2011.

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

Included in other investments are investments in partnerships in which one of the Company’s subsidiaries is the investment manager and general partner. The Company accounts for these investments using the equity method as described in Note 2 - Summary of Significant Accounting Policies in the Company's 2011 annual report. The Company’s proportionate share of those investments is included in the tables above. In addition, other investments include warrants and investments in funds managed by third parties. The investments in private investment funds managed by third parties are generally not redeemable at the option of the Company. As of September 30, 2012, the Company had unfunded investment commitments of $0.1 million related to private investment funds managed by third parties.

The Company used the following valuation techniques with unobservable inputs when estimating the fair value of the Level 3 assets:

Dollars in thousands	Fair Value at September 30, 2012	Valuation Technique	Unobservable Input	Range (Weighted Average)			
General Partner in Funds of Funds (1)	$ 105	Net Asset Value	N/A	N/A			
Limited Partner in Private Equity Fund (1)	$ 2,444	Net Asset Value	N/A	N/A			
Warrants and Other	$ 669	Black-Scholes Option Model	Annualized volatility of credit (2)	17.0%	-	47.3%	(18.4%)
Equity securities in HGC and JMP Capital	$ 41,914	Market comparable companies	Revenue multiples (3)	2.2x	-	8.8x	(4.6x)
			EBITDA multiples (3)	8.6x	-	18.5x	(13.2x)
			Free cash flow multiples (3)	26.7x	-	28.1x	(27.2x)
			Discount for lack of marketability (4)	30%	-	40%	(32%)
		Market transactions	Revenue multiples (3)	3.1x	-	6.9x	(5.0x)
			EBITDA multiples (3)	11.5x	-	25.9x	(19.6x)
			Control premium (4)	25%			

(1) The Company uses the reported net asset value per share as a practical expedient to estimate the fair value of the general partner investment in funds of funds and limited partner investment in mortgage and private equity funds.
(2) The range represents amounts used in the analysis that the Company has determined market participants would use when pricing the warrants.
(3) The rates represent amounts used when the Company has determined that market participants would use such multiples when pricing the investments.
(4) The rates represent amounts used when the Company has determined that market participants would take into account these premiums and discounts when pricing the investments.

The significant unobservable input used in the fair value measurement of the warrants is the annualized volatility of credit. Significant increases in the rate would result in a significantly higher fair value measurement.

The significant unobservable inputs used in the fair value measurement of the equity securities in HGC and JMP Capital are Revenue, EBITDA and Free Cash Flow multiples, discount for lack of marketability, and control premiums. Significant increases in the multiples in isolation would result in a significantly higher fair value measurement. Increases in the discounts and premium in isolation would result in decreases to the fair value measurement.

Investments at Cost

On February 11, 2010, the Company made a $1.5 million investment in Class D Preferred Units of Sanctuary. Sanctuary provides a turnkey platform that allows independent wealth advisors to establish an independent advisory business without the high startup costs and regulatory hurdles. The Class D Preferred Units entitle the Company to receive a preferred dividend with units that are convertible into equity of Sanctuary at the option of the Company prior to the maturity date, February 11, 2013. During the fourth quarter of 2010, the Company determined that its investment in Sanctuary was fully impaired and recorded an impairment loss of $1.5 million, which was included in Principal Transactions on the Consolidated Statements of Operations. On April 3, 2012, the Company purchased a $2.3 million receivable from Sanctuary for $1.4 million. The $1.4 million was composed of cash consideration of $0.5 million and $0.9 million applied to the redemption of 60 Class D Preferred Units owned by the Company. The Company recognized the $0.9 million as a gain in Principal Transactions, and the $2.3 million receivable in Other Assets. The carrying value of the Company's investment in Sanctuary remained at zero at September 30, 2012. The carrying value of the long-term receivable was $1.4 million as of September 30, 2012. The Company determined the fair value of the long-term receivable to be $1.6 million as of September 30, 2012, using anticipated cash flows, discounted at an appropriate market credit adjusted interest rate. Significant increases in the market credit adjusted interest rate in isolation would result in decreases to the fair value measurement.

Derivative Financial Instruments

On May 29, 2010, the Company entered into an interest rate cap with City National Bank (the "Lender") to effectively lock in or fix the interest rate on its revolving line of credit and term loan from July 1, 2010 through maturity. The interest rate cap will allow the Company to receive payments from the Lender in the event that LIBOR plus 2.25% exceeds 3.75%, limiting the interest rate on the outstanding balance of the line of credit and term loan to such rate. On July 1, 2010, the Company designated the interest rate cap as a cash flow hedge of the interest rate risk of a total of $27.1 million of outstanding borrowings with the Lender as of that date. The notional principal amount of the cap was $12.7 million at September 30, 2012. See Note 7 for information pertaining to the Company's borrowing from the Lender.

The interest rate cap is recorded at fair value in other investments on the Consolidated Statements of Financial Condition, with unrealized gains and losses recorded as other comprehensive income. For the three and nine months ended September 30, 2012, the Company recorded $281 and $7,795 of other comprehensive loss representing unrealized loss on the interest rate cap, respectively. In addition, for the three and nine months ended September 30, 2012, $13,674 and $41,022, respectively, were reclassified from accumulated other comprehensive income into interest expense as amortization of the interest cap.

5. Small Business Loans

Small business loans consist of loans held at HCC. HCC was formed in the third quarter of 2011 to generate both current income and capital appreciation by primarily making direct investments in the form of subordinated debt, and, to a lesser extent, senior debt and minority equity investments in small to mid-size companies. As of September 30, 2012, the $24.6 million net loans outstanding were commercial loans. The following table summarizes the components of this small business loan receivable balance:

(In thousands)	September 30, 2012	December 31, 2011
Small business loans	$26,459	$8,000
Allowance for loan losses	(894)	(216)
Deferred loan fees	(920)	(307)
Small business loans, net	$24,645	$7,477

The Company, at least on a quarterly basis, reviews and evaluates the credit quality of each loan. The review primarily includes the following credit quality indicators with regard to each loan: 1) Moody's rating, 2) current internal rating and 3) performance. The review follows a similar methodology as the review over loans collateralizing asset-backed securities issued. See Note 2 - Summary of Significant Accounting Policies in the Company's 2011 10-K for the policy and methodology in determining an allowance for loan losses and further descriptions of the credit quality factors analyzed.

(In thousands)	Cash Flow (CF)	
	September 30, 2012	December 31, 2011
Moody's rating:		
B1 - B3	6,000	4,000
NR	20,459	4,000
Total:	$26,459	$8,000
Internal rating:		
Rating 2	26,459	8,000
Total:	$26,459	$8,000
Performance:		
Performing	$26,459	$8,000
Total:	$26,459	$8,000

A summary of the activity in the allowance for loan losses for the three and nine months ended September 30, 2012 and 2011 were as follows:

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Balance at beginning of period	$(757)	$-	$(216)	$-
Provision for loan losses	(137)	(32)	(677)	(32)
Balance at end of period	$(894)	$(32)	$(893)	$(32)

The Company determined the fair value of small business loans to be $25.7 million and $7.7 million as of September 30, 2012 and December 31, 2011, respectively. The fair value of the loans are calculated using the average market bid and ask quotation obtained from a loan pricing service. Such loans are identified as Level 2 assets. When average market bid and ask quotations are not available, the loans are identified as Level 3 assets. The fair value of these Level 3 loans are calculated internally based on their performance. This analysis incorporates comparable loans traded in the marketplace, the obligor's industry, future business prospects, capital structure, and expected credit losses. Significant declines in the performance of the loan would result in decreases to the fair value measurement.

6. Loans Collateralizing Asset-backed Securities Issued and Loans Held for Sale

Loans collateralizing asset-backed securities issued and loans held for sale are commercial loans securitized and owned by Cratos CLO. The loans consist of those loans within the CLO securitization structure at the acquisition date of Cratos and loans purchased by the CLO subsequent to the Cratos acquisition date. The following table presents the components of loans collateralizing asset-backed securities issued and loans held for sale at September 30, 2012 and December 31, 2011:

(In thousands)	Loans Collateralizing Asset-backed Securities		Loans Held for Sale	
	September 30, 2012	December 31, 2011	September 30, 2012	December 31, 2011
Loans	$419,372	$436,954	$4,686	$4,686
Allowance for loan losses	(3,581)	(4,199)	-	-
Liquidity discount	(5,205)	(14,459)	(1,279)	(1,279)
Credit discount	(938)	(1,335)	-	-
Deferred loan fees, net	(7,407)	(6,191)	(156)	(168)
Valuation allowance	N/A	N/A	(32)	(282)
Total loans, net	$402,241	$410,770	$3,219	$2,957

Loans recorded upon the acquisition of Cratos at fair value reflect a liquidity discount and a credit discount. In addition, most loans purchased subsequent to the acquisition were purchased at a discount to their principal value, reflecting deferred loan fees. The tables below summarize the activity in the loan principal, allowance for loan losses, liquidity discount, credit discount, deferred loan fees and carrying values, net for the impaired loans and non-impaired loans as of and for the three months ended September 30, 2012:

	Three Months Ended September 30, 2012					
(In thousands)	Principal	Allowance for Loan Losses	Liquidity Discount	Credit Discount	Deferred Loan Fees	Carrying Value, Net
Impaired Loans						
Balance at beginning of period	$3,298	$(1,524)	$(836)	$(938)	$-	$-
Repayments	(54)	-	-	-	-	(54)
Accretion of discount	-	-	54	-	-	54
Balance at end of period	$3,244	$(1,524)	$(782)	$(938)	$-	$-
Non-impaired Loans						
Balance at beginning of period	$431,790	$(2,122)	$(5,468)	$-	$(6,851)	$417,349
Purchases / funding	37,492	-	-	-	(1,321)	36,171
Repayments	(8,312)	-	-	-	-	(8,312)
Accretion of discount	-	-	1,045	-	525	1,570
Provision for loan losses	-	65	-	-	-	65
Sales and payoff	(44,842)	-	-	-	240	(44,602)
Balance at end of period	$416,128	$(2,057)	$(4,423)	$-	$(7,407)	$402,241

The tables below summarize the activity in the loan principal, allowance for loan losses, liquidity discount, credit discount, deferred loan fees and carrying values, net for the impaired loans and non-impaired loans as of and for the three months ended September 30, 2011:

	Three Months Ended September 30, 2011					
(In thousands)	Principal	Allowance for Loan Losses	Liquidity Discount	Credit Discount	Deferred Loan Fees	Carrying Value, Net
Impaired Loans						
Balance at beginning of period	$14,058	$(582)	$(5,951)	$(4,763)	$(54)	$2,708
Repayments	(79)	-	13	-	-	(66)
Balance at end of period	$13,979	$(582)	$(5,938)	$(4,763)	$(54)	$2,642
Non-impaired Loans						
Balance at beginning of period	$435,107	$(1,764)	$(14,929)	$-	$(5,504)	$412,910
Purchases / funding	61,837	-	-	-	(891)	60,946
Repayments	(4,940)	-	-	-	-	(4,940)
Accretion of discount	-	-	1,292	-	464	1,756
Provision for loan losses	-	(91)	-	-	-	(91)
Sales and payoff	(44,554)	-	1,183	-	395	(42,976)
Transfers to/from non-impaired loans, net	(4,686)	-	1,292	-	175	(3,219)
Balance at end of period	$442,764	$(1,855)	$(11,162)	$-	$(5,361)	$424,386

The tables below summarize the activity in the loan principal, allowance for loan losses, liquidity discount, credit discount, deferred loan fees and carrying values, net for the impaired loans and non-impaired loans as of and for the

nine months ended September 30, 2012:

	Nine Months Ended September 30, 2012					
(In thousands)	Principal	Allowance for Loan Losses	Liquidity Discount	Credit Discount	Deferred Loan Fees	Carrying Value, Net
Impaired Loans						
Balance at beginning of period	$10,538	$(2,277)	$(5,924)	$(1,335)	$(54)	$948
Purchases / funding	5	-	-	-	-	5
Repayments	(132)	-	-	-	-	(132)
Accretion of discount	-	-	125	-	13	138
Write-off/ restructuring	(7,167)	1,753	5,017	397	41	41
Provision for loan losses	-	(1,000)	-	-	-	(1,000)
Balance at end of period	$3,244	$(1,524)	$(782)	$(938)	$-	$-
Non-impaired Loans						
Balance at beginning of period	$426,416	$(1,922)	$(8,535)	$-	$(6,137)	$409,822
Purchases / funding	126,579	-	-	-	(4,042)	122,537
Repayments	(25,321)	-	-	-	-	(25,321)
Accretion of discount	-	-	3,149	-	1,488	4,637
Provision for loan losses	-	(135)	-	-	-	(135)
Sales and payoff	(111,546)	-	963	-	1,284	(109,299)
Balance at end of period	$416,128	$(2,057)	$(4,423)	$-	$(7,407)	$402,241

The tables below summarize the activity in the loan principal, allowance for loan losses, liquidity discount, credit discount, deferred loan fees and carrying values, net for the impaired loans and non-impaired loans as of and for the nine months ended September 30, 2011:

	Nine Months Ended September 30, 2011					
(In thousands)	Principal	Allowance for Loan Losses	Liquidity Discount	Credit Discount	Deferred Loan Fees	Carrying Value,Net
Impaired Loans						
Balance at beginning of period	$13,867	$(582)	$(2,557)	$(8,558)	$-	$2,170
Purchases / funding	19	-	-	-	-	19
Repayments	(273)	-	13	-	-	(260)
Accretion of discount	-	-	99	-	-	99
Sales and payoff	(6,583)	-	659	3,795	-	(2,129)
Transfers to/from non-impaired loans, net	6,949	-	(4,152)	-	(54)	2,743
Balance at end of period	$13,979	$(582)	$(5,938)	$(4,763)	$(54)	$2,642
Non-impaired Loans						
Balance at beginning of period	$439,491	$(1,410)	$(33,037)	$-	$(6,451)	$398,593
Purchases / funding	223,416	-	-	-	(2,444)	220,972
Repayments	(21,452)	-	-	-	-	(21,452)
Accretion of discount	-	-	7,418	-	1,226	8,644
Provision for loan losses	-	(445)	-	-	-	(445)
Sales and payoff	(187,056)	-	9,013	-	2,079	(175,964)
Transfers to/from impaired loans, net	(6,949)	-	4,152	-	54	(2,743)
Transfers to loans held for sale	(4,686)		1,292		175	(3,219)
Balance at end of period	$442,764	$(1,855)	$(11,162)	$-	$(5,361)	$424,386

Allowance for Loan Losses

The Company recorded a reversal of general reserves of $0.1 million and a provision of $0.1 million during the quarters ended September 30, 2012 and 2011 on non-impaired loans. The Company recorded general reserves of $0.1 million and $0.4 million during the nine months ended September 30, 2012 and 2011, respectively, on non-impaired loans. The Company recorded $1.0 million as a specific reserve against a non-performing loan that was purchased with the Cratos acquisition during the nine months ended September 30, 2012.

A summary of the activity in the allowance for loan losses for loans collateralizing asset-backed securities for the three and nine months ended September 30, 2012 and 2011 is as follows:

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Balance at beginning of period	$(3,646)	$(2,346)	$(4,199)	$(1,992)
Provision for loan losses:				
General reserve	65	(91)	(135)	(445)
Specific reserve	-	-	(1,000)	-
Reversal due to sale, payoff or restructure of loans	-	-	1,753	-

Balance at end of period	$(3,581)	$(2,437)	$(3,581)	$(2,437)

Impaired Loans

A loan is considered to be impaired when, based on current information, it is probable that the Company will be unable to collect all amounts due in accordance with the contractual terms of the original loan agreement, including scheduled principal and interest payments. As of September 30, 2012 and December 31, 2011, $1.5 million and $3.2 million of recorded investment amount of loans collateralizing asset-backed securities issued were individually evaluated for impairment, respectively. The remaining $404.3 million and $411.7 million of recorded investment amount of loans collateralizing asset-backed securities issued were collectively evaluated for impairment, as of September 30, 2012 and December 31, 2011 respectively. The entire $3.2 million and $3.0 million of recorded investment amount of loans held for sale were individually evaluated for impairment, as of September 30, 2012 and December 31, 2011, respectively.

All impaired loans are classified as cash flow loans. The tables below present certain information pertaining to the impaired loans at September 30, 2012 and December 31, 2011:

(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
September 30, 2012			
Impaired loans with an allowance recorded	$ 1,525	$ 3,244	$ 1,525
Impaired loans with no related allowance recorded	-	-	-
	$ 1,525	$ 3,244	$ 1,525
December 31, 2011			
Impaired loans with an allowance recorded	$ 3,223	$ 10,537	$ 2,277
Impaired loans with no related allowance recorded	-	-	-
	$ 3,223	$ 10,537	$ 2,277

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Average recorded investment	$ 1,525	$ 3,250	$ 2,277	$ 3,508
Interest income recognized	$ 40	$ 38	$ 126	$ 164

Non-Accrual, Past Due Loans and Restructured Loans

As of September 30, 2012 and December 31, 2011, the Company classified its loans as either Cash Flow loans or Enterprise Value loans. The classification is based upon whether the funding decision was driven by the revenues of the borrower ("Cash Flow"), or driven by the market value of the borrower or the value of the borrower’s intellectual property ("Enterprise Value"). At September 30, 2012, two Cash Flow loans with an aggregate principal amount of $3.2 million and recorded investment amount of $1.5 million were on non-accrual status. At December 31, 2011, two Cash Flow loans with the aggregate principal amount of $10.5 million and recorded investment amount of $3.2 million were on non-accrual status. The Company recognized $40.1 thousand and $126.4 thousand in interest income, other than the accretion of liquidity discounts, for the impaired loans with a weighted average loan balance of $1.5 million and $2.3 million that were on non-accrual status during the three and nine months ended September 30, 2012. The Company recognized $37.7 thousand and $163.6 thousand in interest income, other than the accretion of liquidity discounts, for the impaired loans with a weighted average loan balance of $3.3 million and $3.5 million that were on non-accrual status during the three and nine months ended September 30, 2011.

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. At December 31, 2011, one non-accrual loan in the amount of $2.7 million was over 90 days past due. No other loans were past due at September 30, 2012 or December 31, 2011.

At December 31, 2011, the Company's impaired loans included two Cash Flow loans, with an aggregate recorded investment balance of $0.6 million, whose terms were modified in a troubled debt restructuring ("TDR"). Concessions for these TDRs included a below market interest rate or receipt of equity interest in the debtor as compensation for reducing the loan principal balance. During the nine months ended September 30, 2012, one loan previously modified in a TDR was further restructured. An additional $1.0 million specific reserve was recorded for this loan earlier in the year. At the time of the modification, the loan was fully impaired. Concessions for this TDR included a below market interest rate and a reduction in the loan principal balance. There was no restructuring to new or existing TDR loans in the three months ended September 30, 2012. Neither of the loans have had payment defaults since their respective most recent restructuring. At September 30, 2012, the impaired loans included two Cash Flow loans modified in a TDR, with an aggregate recorded investment balance of $1.5 million. At September 30, 2012 and December 31, 2011, there were no remaining commitments to lend funds to debtors whose terms have been modified in a TDR.

Credit Quality of Loans

The Company, at least on a quarterly basis, reviews and evaluates the credit quality of each loan. The review primarily includes the following credit quality indicators with regard to each loan: 1) Moody's rating, 2) current internal rating and 3) performance. The tables below present, by credit quality indicator, the Company's recorded investment in loans collateralizing asset-backed securities issued at September 30, 2012 and December 31, 2011.

(In thousands)	Cash Flow (CF)	Enterprise Value (EV)	Total Loans Collateralizing Asset-Backed	Held for Sale - Cash Flow (CF)

					Securities Issued			
	September 30, 2012	December 31, 2011	September 30, 2012	December 31, 2011	September 30, 2012	December 31, 2011	September 30, 2012	December 31, 2011
Moody's rating:								
Baa1 - Baa3	$4,909	$4,951	$-	$-	$4,909	$4,951	$-	$-
Ba1 - Ba3	125,169	131,743	-	-	125,169	131,743	-	-
B1 - B3	271,542	271,770	-	1,958	271,542	273,728	-	-
Caa1 - Caa3	4,202	4,546	-	-	4,202	4,546	3,219	2,957
Total:	$405,822	$413,010	$-	$1,958	$405,822	$414,968	$3,219	$2,957
Internal rating:								
Performing	$392,400	$397,033	$-	$1,958	$392,400	$398,991	$-	$-
Moderate	11,897	12,754	-	-	11,897	12,754	-	-
Watchlist (1)	1,525	3,223	-	-	1,525	3,223	3,219	2,957
Non-Accrual (1)	-	-	-	-	-	-	-	-
Total:	$405,822	$413,010	$-	$1,958	$405,822	$414,968	$3,219	$2,957
Performance:								
Performing	$404,297	$409,787	$-	$1,958	$404,297	$411,745	$3,219	$2,957
Non-performing	1,525	3,223	-	-	1,525	3,223	-	-
Total:	$405,822	$413,010	$-	$1,958	$405,822	$414,968	$3,219	$2,957

(1) Loans with an internal rating of Watchlist or below are designated as loans on non-accrual status.

The Company determined the fair value of loans collateralizing asset-backed securities to be $417.4 million and $420.1 million as of September 30, 2012 and December 31, 2011, respectively; primarily using the average market bid and ask quotation obtained from a loan pricing service. Such loans are identified as Level 2 assets. When average market bid and ask quotations were not available, the loans are identified as Level 3 assets. The fair value of these Level 3 loans are calculated internally based on their performance. This analysis incorporates comparable loans traded in the marketplace, the obligor's industry, future business prospects, capital structure, and expected credit losses. Significant declines in the performance of the loan would result in decreases to the fair value measurement.

The fair value of the loan held for sale was determined to be $3.2 million and $3.0 million as of September 30, 2012 and December 31, 2011, using similar methodology. Based on the fair value methodology, the Company has identified the loan held for sale as a Level 2 asset.

7. Note Payable

Note payable consists of term loans and revolving lines of credit related to the Company's Credit Agreement with City National Bank (the "Lender"), as defined below.

On August 24, 2011, JMP Group LLC, a wholly-owned subsidiary of the Company, entered into Amendment Number Six to Credit Agreement (the "Sixth 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, Amendment Number Two to Credit Agreement, dated as of March 27, 2008, Amendment Number Three to Credit Agreement (the "Third Amendment"), dated as of December 31, 2008, Amendment Number Four to Credit Agreement and Waiver, dated as of January 28, 2010, and Amendment Number Five (the "Fifth Amendment"), dated as of April 8, 2011 (collectively, the "Credit Agreement").

The Sixth Amendment provided a new line of credit of up to $30.0 million to the extent the aggregate outstanding balance of all facilities does not exceed $55.0 million. The new line of credit will remain available through August 24, 2013. On such date, any outstanding amounts convert to a term loan. The term loan will be repaid in quarterly installments of 3.75% of funded debt for the first two years, 5.00% of funded debt for the next two years, and the remainder due at maturity on August 24, 2017. The Sixth Amendment also permits additional investments. The Company anticipates that the proceeds will be used to fund certain commitments to HCC, to repurchase Company stock and other permitted investments, and for other general working capital purposes. The Company's outstanding balance on this line of credit was $10.0 million and zero as of September 30, 2012 and December 31, 2011.

Under the Fifth Amendment, JMP Securities entered into a $20.0 million revolving line of credit with City National Bank to be used for regulatory capital purposes during its securities underwriting activities. Draws on the revolving line of credit bear interest at the rate of prime and were available through April 8, 2012 on which date, if there were an existing outstanding amount, it would convert to a loan maturing on April 8, 2013. On May 24, 2012, the line of credit conversion date was extended from April 8, 2012 to May 24, 2014. There was no borrowing on this line of credit as of September 30, 2012 or December 31, 2011.

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 is being repaid in equal quarterly payments of $0.4 million, which commenced on March 31, 2009 and continues through December 31, 2013 and bears interest at LIBOR plus 2.25%. The outstanding balance on this term loan was $2.2 million as of September 30, 2012.

The Third Amendment also provided that of the original $30.0 million revolving line of credit, $21.0 million remained available under the revolving portion of the Credit Agreement and the annual interest rate provisions of the Credit Agreement were increased from the prime rate minus 1.25% to the prime rate and from LIBOR plus 1.25% to LIBOR plus 2.25%. The Lender agreed to continue to provide revolving loans of up to $21.0 million through December 31, 2010, on which date the then existing revolving loans converted into term loans. On December 31, 2010, pursuant to the provisions of the Third Amendment, the outstanding revolving loan of $21.0 million was converted into a single term loan that will fully mature on December 31, 2013. This term loan is being repaid in equal quarterly payments of $1.8 million, which commenced on April 1, 2011 and continues through January 1, 2014. The outstanding balance on this term loan was $10.5 million as of September 30, 2012.

The two term loans had an aggregate outstanding principal amount of $12.7 million and $19.2 million at September 30, 2012 and December 31, 2011, respectively. The following table shows the repayment schedules for the principal portion of the term loans at September 30, 2012:

(In thousands)	Contractual Payments Due
Year Ending December 31,	
2012	2,184
2013	8,736
2014	1,750
	$12,670

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 Credit Agreement, 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. The Sixth Amendment added back the Fixed Charge Coverage Ratio requirement and introduced certain leverage ratio requirements. At September 30, 2012, the Company was in compliance with the loan covenants. The term loan is collateralized by a pledge of the Company’s assets, including its interests in each of JMP Securities and HCS.

On May 29, 2010 the Company entered into an interest rate cap with the Lender to effectively fix the interest rate on its revolving line of credit and term loan from July 1, 2010 through maturity. The interest rate cap will allow the Company to receive payments from the counterparty in the event that LIBOR plus 2.25% exceeds 3.75%, limiting the interest rate on the outstanding balance of the term loan to such rate. The cap had an initial notional principal amount of $27.1 million, indexed to LIBOR and amortizes in accordance with the amortization of the revolving line of credit and term loan. The notional principal amount of the cap was $12.7 million at September 30, 2012. See Note 4 for additional information on the interest rate cap.

8. Asset-backed Securities Issued

On May 17, 2007, Cratos CLO completed a $500.0 million aggregate principal amount of notes (the “Notes”) on-balance sheet debt securitization and obtained $455.0 million of third-party financing. The Notes will be repaid from the cash flows generated by the loan portfolio owned by the CLO. The Notes were issued in six separate classes as set forth in the table below. The Company owns approximately 94.0% of the unsecured subordinated notes and $13.8 million of Class C, D and E notes ($2.0 million of Class C, $4.1 million of Class D and $7.7 million of Class E notes). These unsecured subordinated notes and the Class C, D and E notes owned by the Company are eliminated upon consolidation of JMP Credit, and therefore, are not reflected on the Company’s consolidated statement of financial condition at September 30, 2012 and December 31, 2011.

(In millions)	As of September 30, 2012					
	Notes Originally Issued	Outstanding Principal Balance	Liquidity Discount	Net Outstanding Balance	Interest Rate Spread to LIBOR	Ratings (Moody's /S&P) (1)
Class A Senior Secured Floating Rate Revolving Notes due 2021	$ 326.0	$ 315.8	$ (8.7)	$ 307.1	0.26% - 0.29%	Aaa/AAA
Class B Senior Secured Floating Rate Notes due 2021	30.0	30.0	(2.2)	27.8	0.50%	Aaa/AA+
Class C Senior Secured Deferrable Floating Rate Notes due 2021	35.0	35.0	(5.2)	29.8	1.10%	Aa3/AA-
Class D Secured Deferrable Floating Rate Notes due 2021	34.0	34.0	(5.2)	28.8	2.40%	A3/BBB+
Class E Secured Deferrable Floating Rate Notes due 2021	30.0	30.0	(5.0)	25.0	5.00%	Ba2/BB-
Total secured notes sold to investors	$ 455.0	$ 444.8	$ (26.3)	$ 418.5		
Unsecured subordinated notes due 2021	45.0	45.0	(39.9)	5.1		
Total notes for the CLO I offering	$ 500.0	$ 489.8	$ (66.2)	$ 423.6		
Consolidation elimination	N/A	(58.8)	41.7	(17.1)		

Total asset-backed securities issued	N/A	$ 431.0	$ (24.5)	$ 406.5

(1) These ratings are unaudited and were the current ratings as of September 30, 2012 and are subject to change from time to time.

(In millions)	As of December 31, 2011					
	Notes Originally Issued	Outstanding Principal Balance	Liquidity Discount	Net Outstanding Balance	Interest Rate Spread to LIBOR	Ratings (Moody's /S&P) (1)
Class A Senior Secured Floating Rate Revolving Notes due 2021	$ 326.0	$ 315.8	$ (17.6)	$ 298.2	0.26% - 0.29%	Aaa/AAA
Class B Senior Secured Floating Rate Notes due 2021	30.0	30.0	(4.4)	25.6	0.50%	Aaa/AA+
Class C Senior Secured Deferrable Floating Rate Notes due 2021	35.0	35.0	(10.5)	24.5	1.10%	Aa3/AA-
Class D Secured Deferrable Floating Rate Notes due 2021	34.0	34.0	(10.5)	23.5	2.40%	A3/BBB+
Class E Secured Deferrable Floating Rate Notes due 2021	30.0	30.0	(10.0)	20.0	5.00%	Ba2/BB-
Total secured notes sold to investors	$ 455.0	$ 444.8	$ (53.0)	$ 391.8		
Unsecured subordinated notes due 2021	45.0	45.0	(39.9)	5.1		
Total notes for the CLO I offering	$ 500.0	$ 489.8	$ (92.9)	$ 396.9		
Consolidation elimination	N/A	(58.8)	43.5	(15.3)		
Total asset-backed securities issued	N/A	$ 431.0	$ (49.4)	$ 381.6		

(1) These ratings are unaudited and were the current ratings as of December 31, 2011 and are subject to change from time to time.

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

provisions. To the extent proceeds are not so available, interest on the Class C, Class D and Class E notes will be deferred. As of September 30, 2012 and December 31, 2011, all interest on the secured notes was current. The CLO is also required to pay a commitment fee of 0.18% on the unused portion of the funding commitments of the Class A-1 notes. As of September 30, 2012 and December 31, 2011, all of the Class A-1 notes were drawn. The secured notes are secured by the CLO loan portfolio and the funds on deposit in various related collection and payment accounts. The terms of the debt securitization subject the loans included in the CLO loan portfolio to a number of collateral quality, portfolio profile, interest coverage and overcollateralization tests. Total interest expense related to the asset-backed securities issued for the three and nine months ended September 30, 2012 was $9.9 million and $28.9 million, respectively, which comprised cash coupon of $1.3 million and $4.0 million and a liquidity discount amortization of $8.6 million and $24.9 million, respectively. Total interest expense related to the asset-backed securities issued for the three and nine months ended September 30, 2011 was $8.8 million and $25.8 million, respectively, which comprised cash coupon of $1.1 million and $3.4 million and a liquidity discount amortization of $7.6 million and $22.4 million, respectively. As of September 30, 2012 and December 31, 2011, accrued interest payable on the Notes was $0.6 million and $0.5 million, respectively.

The Notes recorded upon the acquisition of Cratos in April 2009 at fair value reflect a liquidity discount. The activity in the note principal and liquidity discount for the three and nine months ended September 30, 2012 comprised the following:

(In thousands)	Three Months Ended September 30, 2012			Nine Months Ended September 30, 2012		
	Principal	Liquidity Discount	Net	Principal	Liquidity Discount	Net
Balance at beginning of period	$431,003	$(33,097)	$397,906	$431,003	$(49,447)	$381,556
Amortization of discount	-	8,555	8,555	-	24,905	24,905
Balance at end of period	$431,003	$(24,542)	$406,461	$431,003	$(24,542)	$406,461

The activity in the note principal and liquidity discount for the three and nine months ended September 30, 2011 comprised the following:

(In thousands)	Three Months Ended September 30, 2011			Nine Months Ended September 30, 2011		
	Principal	Liquidity Discount	Net	Principal	Liquidity Discount	Net
Balance at beginning of period	$431,003	$(64,923)	$366,080	$431,003	$(79,681)	$351,322
Amortization of discount	-	7,639	7,639	-	22,397	22,397
Balance at end of period	$431,003	$(57,284)	$373,719	$431,003	$(57,284)	$373,719

The Company determined the fair value of asset-backed securities issued to be $397.8 million and $375.9 million as of September 30, 2012 and December 31, 2011, respectively, based upon pricing from published market research for equivalent-rated CLO notes. Based on the fair value methodology, the Company has identified the asset backed securities issued as Level 2 liabilities.

9. Stockholders’ Equity

Stock Repurchase Program

In each of August and November 2007, the Company’s board of directors authorized a 1.5 million share repurchase program, both of which were fully executed as of January 18, 2008. On March 10, 2008, the Company's board of directors authorized the repurchase of an additional 2.0 million shares during the subsequent eighteen months, the repurchase of an additional 0.5 million shares during the subsequent twelve months on March 3, 2009, the repurchase of an additional 1.0 million shares during the subsequent eighteen months on May 4, 2010, the repurchase of an additional 0.5 million shares during the subsequent twelve months on May 3, 2011, and the repurchase of an additional 1.0 million shares during the subsequent eighteen months on November 1, 2011. During the three months ended September 30, 2012 and 2011, the Company repurchased 58,936 and 262,931 shares, respectively, of the Company’s common stock at an average price of $5.57 per share and $6.53 per share, respectively, for an aggregate purchase price of $0.3 million and $1.7 million, respectively. The Company repurchased 7,336 shares during the three months ended September 30, 2012 that were deemed to have been repurchased in connection with employee stock plans, whereby the Company’s shares were issued on a net basis to employees for the payment of applicable statutory withholding taxes and therefore such withheld shares are deemed to be purchased by the Company. All 262,931 shares repurchased during the three months ended September 30, 2011 were repurchased in the open market.

The timing and amount of any future open market stock repurchases will be determined by JMP management based on its evaluation of market conditions, the relative attractiveness of other capital deployment activities, regulatory considerations and other factors. Any open market stock repurchase activities will be conducted in compliance with the safe harbor provisions of Rule 10b-18 of the Exchange Act, 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. The board reauthorized this plan and it was approved by our stockholders on June 6, 2011. JMP Group Inc. authorized the issuance of 4,000,000 shares of its common stock under this Plan. This amount is increased by any shares JMP Group Inc. purchases on the open market, or through any share repurchase or share exchange program, as well as any shares that may be returned to the JMP Group 2007 Plan or the JMP Group LLC 2004 Equity Incentive Plan (“JMP Group 2004 Plan”) as a result of forfeiture, termination or expiration of awards; not to exceed a maximum aggregate number of shares of 2,960,000 shares under the JMP Group 2004 Plan. The Company will issue shares upon exercises or vesting from authorized but unissued shares or from treasury stock.

Stock Options

The following table summarizes the stock option activity for the nine months ended September 30, 2012:

	Nine Months Ended September 30, 2012	
	Shares Subject to Option	Weighted Average Exercise Price
Balance, beginning of year	1,704,665	$11.20
Expired	(95,775)	12.43
Balance, end of period	1,608,890	$11.12
Options exercisable at end of period	1,608,890	$11.12

The following table summarizes the stock options outstanding as well as stock options vested and exercisable as of September 30, 2012:

	As of September 30, 2012							
	Options Outstanding				Options Vested and Exercisable			
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Aggregate Intrinsic Value	Number Exercisable	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Aggregate Intrinsic Value
$10.00 - $12.50	1,608,890	2.31	$ 11.12	-	1,608,890	2.31	$ 11.12	-

The Company recognizes stock-based compensation expense for stock options over the graded vesting period of the options using the accelerated attribution method. The Company recognized compensation expense related to stock options of zero for the three and nine months ended September 30, 2012 and 2011.

As of September 30, 2012, there was no unrecognized compensation expense related to stock options.

Restricted Stock Units and Restricted Shares

Under the JMP Group 2007 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.

The following table summarizes the RSU activity for the nine months ended September 30, 2012:

	Nine Months Ended September 30, 2012

	Restricted Stock Units	Weighted Average Grant Date Fair Value
Balance, beginning of year	1,634,268	$7.42
Granted (1)	952,597	7.69
Vested	(1,415,327)	7.56
Forfeited	(109,943)	6.98
Balance, end of period	1,061,595	$7.52

(1) Includes approximately 910,000 RSUs granted to certain employees for long term incentive purposes. These units have Company performance-based and employee service-based vesting conditions and will vest when both conditions are met.

The aggregate fair value of RSUs vested during the three and nine months ended September 30, 2012 was $0.2 million and $9.9 million, respectively. For the three and nine months ended September 30, 2012, the income tax benefits realized from the vested RSUs were zero and $3.6 million.

The Company recognizes compensation expense over a graded vesting period using the accelerated attribution method. For the three months ended September 30, 2012 and 2011, the Company recorded no compensation expense related to RSUs awarded in connection with the IPO. For the nine months ended September 30, 2012 and 2011, the Company recorded compensation expense of zero and $0.8 million, respectively, related to RSUs awarded in connection with the IPO. In addition, for the three months ended September 30, 2012 and 2011, the Company recorded compensation expense of $0.2 million and $0.1 million for RSUs granted after the IPO. For the nine months ended September 30, 2012 and 2011, the Company recorded compensation expense of $0.6 million and $0.4 million for RSUs granted after the IPO.

For both the three months ended September 30, 2012 and 2011, the Company recognized income tax benefits of $0.1 million and $0.3 million, respectively, related to the compensation expense recognized for RSUs. For the nine months ended September 30, 2012 and 2011, the Company recognized income tax benefits of $0.2 million and $0.5 million, respectively, related to the compensation expense recognized for RSUs. As of September 30, 2012, there was $7.0 million of unrecognized compensation expense related to RSUs expected to be recognized over a weighted average period of 2.27 years.

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

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

The computations of basic and diluted net income per share for the three and nine months ended September 30, 2012 and 2011 are shown in the tables below:

(In thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Numerator:				
Net (loss) income	$(1,676)	$(1,623)	$(2,949)	$3,433
Denominator:				
Basic weighted average shares outstanding	22,737	22,354	22,564	22,152
Effect of potential dilutive securities:				
Restricted stock units	93	139	413	482
Diluted weighted average shares outstanding	22,830	22,493	22,977	22,634
Net (loss) income per share				
Basic	$(0.07)	$(0.07)	$(0.13)	$0.15
Diluted	$(0.07)	$(0.07)	$(0.13)	$0.15

Stock options to purchase 1,608,890 and 1,654,241 shares of common stock for the three and nine months ended September 30, 2012, respectively, were anti-dilutive and, therefore, were not included in the computation of diluted weighted-average common shares outstanding. Stock options to purchase 1,727,149 and 1,772,138 shares of common stock for the three and nine months ended September 30, 2011, respectively, were anti-dilutive and, therefore, were not included in the computation of diluted weighted-average common shares outstanding.

No restricted stock units were anti-dilutive for the three and nine months ended September 30, 2012. Restricted stock units for 63,140 and 21,278 shares of common stock for the three and nine months ended September 30, 2011, respectively, were anti-dilutive and, therefore, were not included in the computation of diluted weighted-average common shares 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 U.S. Internal Revenue Service. There were no contributions by the Company during the nine months ended September 30, 2012 and 2011.

13. Income Taxes

The Company is subject to U.S. federal and state income taxes. For the three and nine months ended September 30, 2012, the Company recorded tax benefits of $0.9 million and $1.5 million, respectively. For the three and nine months ended September 30, 2011, the Company recorded a tax benefit of $1.4 million and a tax expense of $2.4 million, respectively.

The components of the Company’s income tax expense for the three and nine months ended September 30, 2012 and 2011 are as follows:

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Federal	$182	$1,497	$217	$2,824
State	(232)	8	(227)	144
Total current income tax expense	(50)	1,505	(10)	2,968
Federal	(777)	(2,497)	(1,320)	(497)
State	(67)	(418)	(217)	(117)
Total deferred income tax expense	(844)	(2,915)	(1,537)	(614)
Total income tax expense	$(894)	$(1,410)	$(1,547)	$2,354

A reconciliation of the statutory U.S. federal income tax rate to the Company's effective tax rate for the three months ended September 30, 2012 and 2011 is as follows:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2012		2011		2012		2011	
Tax at federal statutory tax rate	35.43	%	35.00	%	34.00	%	35.00	%
State income tax, net of federal tax benefit	6.93	%	5.75	%	2.97	%	5.75	%
Adjustment for other permanent items	-0.11	%	-0.54	%	2.50	%	1.80	%
Adjustment for permanent items (HCC non-controlling interest)	1.67	%	-0.12	%	-5.03	%	0.13	%
Adjustment for permanent items (HGC non-controlling interest)	-29.30	%	-21.36	%	-95.51	%	6.74	%
Rate before one-time events	14.62	%	18.73	%	-61.07	%	49.42	%
California state enterprise zone tax credit	1.40	%	1.39	%	-3.28	%	-3.12	%
Adjustment for prior year taxes	0.91	%	3.75	%	-5.28	%	-4.76	%
Deferred tax asset written off related to options and RSUs	-0.69	%	-0.81	%	3.37	%	2.78	%
Effective tax rate	16.24	%	23.06	%	-66.26	%	44.32	%

The Company determined that a valuation allowance against deferred tax assets was not necessary as of September 30, 2012 and December 31, 2011 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 110.58% decrease in the effective tax rate for the nine months ended September 30, 2012 compared to the same period in 2011 was primarily attributable to the income associated with HGC which is consolidated for financial reporting purposes but not for tax purposes. Income attributed to HGC non-controlling interest increased from $0.9 million for the nine months ended September 30, 2011 to $6.0 million for the same period in 2012.

The Company adopted the accounting principles related to uncertainty in income taxes on May 16, 2007, the date the Company became subject to federal and state income taxes. The Company has analyzed the filing positions in its federal and state income tax returns for all open tax years, which are 2010 through 2011 for federal income tax purposes and 2007 through 2011 for state income tax purposes. The Company does not anticipate any tax adjustments that will result in a material adverse effect on the Company's financial condition, results of operations, or cash flow. Therefore, the Company recorded no liability for uncertain income tax positions at September 30, 2012. In addition, the Company did not record a cumulative effect adjustment related to the adoption of the amended accounting principles related to the accounting for uncertainty in income taxes, and no liabilities for uncertain income tax positions have been recorded pursuant to the amended accounting principles.

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, Minnesota, New York, Pennsylvania and Texas under various operating leases. Rental expense for both the three months ended September 30, 2012 and 2011 was $0.8 million. Rental expense for the nine months ended September 30, 2012 and 2011 were $2.4 million and $2.2 million, respectively.

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

(In thousands)	Minimum Future Lease Commitments
Year Ending December 31,	
2012	$ 643
2013	3,490
2014	3,388
2015	3,356
2016	3,307
Thereafter	6,198
	$ 20,382

In the normal course of business, the Company enters into underwriting commitments. Settlement of transactions relating to such underwriting commitments, which were open at September 30, 2012 and December 31, 2011, had no material effect on the consolidated financial statements.

The marketable securities owned and the restricted cash, as well as the cash held by the clearing broker, may be used to maintain margin requirements. At September 30, 2012 and December 31, 2011, the Company had $0.2 million and $0.3 million of cash on deposit with JMP Securities' clearing broker, respectively. Furthermore, the marketable securities owned may be hypothecated or borrowed by the clearing broker.

Unfunded commitments are agreements to lend to a borrower, provided that all conditions have been met. As of September 30, 2012 and December 31, 2011, the Company had unfunded commitments of $18.6 million and $3.2 million, respectively, in the Corporate Credit segment.

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 $34.0 million and $38.0 million, which were $33.0 million and $37.0 million in excess of the required net capital of $1.0 million at September 30, 2012 and December 31, 2011, respectively. JMP Securities' ratio of aggregate indebtedness to net capital was 0.19 to 1 and 0.26 to 1 at September 30, 2012 and December 31, 2011, 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 affiliated entities, including corporations, partnerships, limited liability companies, and offshore investment companies. The Company also owns an investment in most of such affiliated entities. As of September 30, 2012 and December 31, 2011, the aggregate fair value of the Company's investments in the affiliated entities for which the Company serves as the investment advisor was $28.6 million and $34.5 million, respectively, which consisted of general partner investments in hedge and other private funds of $28.5 million and $24.1 million, respectively, general partner or other principal investments in funds of funds of $0.1 million for both periods, and an investment in New York Mortgage Trust, Inc. "NYMT" common stock of zero and $10.3 million, respectively. Base management fees earned from these affiliated entities were $2.2 million and $2.5 million for the quarters ended September 30, 2012 and 2011, respectively, and $7.1 million for both the nine months ended September 30, 2012 and 2011. Also, the Company earned incentive fees of $1.6 million and $3.2 million, from these affiliated entities for the three months ended September 30, 2012 and 2011, respectively, and $3.6 million and $7.8 million for the nine months ended September 30, 2012 and 2011, respectively. As of September 30, 2012 and December 31, 2011, the Company had incentive fees receivable from these affiliated entities of $0.5 million and $2.1 million, 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 September 30, 2012 and December 31, 2011 have subsequently settled with no resulting material liability to the Company. For the nine months ended September 30, 2012 and 2011, the Company had no material loss due to counterparty failure, and has no obligations outstanding under the indemnification arrangement as of September 30, 2012 and December 31, 2011.

The Company is engaged in various investment banking and brokerage activities whose counterparties primarily include broker-dealers, banks and brokerage or investment banking clients. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each

counterparty with which it conducts business.

18. Litigation

The Company is involved in a number of judicial, regulatory and arbitration matters arising in connection with our business. The outcome of matters the Company has been and currently is involved in cannot be determined at this time, and the results cannot be predicted with certainty. There can be no assurance that these matters will not have a material adverse effect on our results of operations in any future period and a significant judgment could have a material adverse impact on our financial condition, results of operations and cash flows. The Company may in the future become involved in additional litigation in the ordinary course of our business, including litigation that could be material to our business.

The Company reviews the need for any loss contingency reserves and establish reserves when, in the opinion of management, it is probable that a matter would result in liability and the amount of loss, if any, can be reasonably estimated. The Company was named as a defendant in a purported securities class action complaint with respect to a company for which JMP Securities served as an underwriter in a public offering, and recorded an accrual based on its portion of the estimated legal expenses. A loss contingency has not been booked as a range of loss cannot be reasonably estimated at this time. Generally, given the inherent difficulty of predicting the outcome of matters the Company is involved in, particularly 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. For these matters, no reserve is established until such time, other than for reasonably estimable legal fees and expenses. Management, after consultation with legal counsel, believes that the currently known actions or threats will not result in any material adverse effect on the Company's financial condition, results of operations or cash flows.

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.

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

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

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance by a borrower to a third party. The Company’s exposure to credit loss in the event of nonperformance by the other party to the financial instrument for standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on balance sheet instruments. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to borrowers. In its Corporate Credit segment, the Company had unfunded commitments of $18.6 million and $3.2 million and standby letters of credit of $0.8 million and $0.2 million at September 30, 2012 and December 31, 2011, respectively.

20. Business Segments

The Company’s business results are categorized into the following four business segments: Broker-Dealer, Asset Management, Corporate Credit and Corporate. The Broker-Dealer segment includes a broad range of services, such as underwriting and acting as a placement agent for public and private capital markets 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, hedge funds of funds, as well as the Company’s principal investments in public and private securities. The Corporate Credit segment includes the management of collateralized loan obligations, small business loans and certain principal investments through JMP Capital and HCC. The Corporate segment includes revenues and expenses related to JMP Group Inc., the holding company, and JMP Group LLC, and is mainly comprised of corporate overhead expenses and interest expense related to the Company's credit facility with City National Bank. The accounting policies of the segments are consistent with those described in the Significant Accounting Policies in Note 2 in the 2011 10-K.

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

The Company’s segment information for the three and nine months ended September 30, 2012 and 2011 were prepared using the following methodology:

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

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

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

The Company evaluates segment results based on revenue and segment operating income before non-controlling interest and taxes.

Segment Operating Results

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

(In thousands)	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Broker-Dealer				
Non-interest revenues	$17,589	$15,525	$54,776	$60,742
Net interest (expense) income	(9)	(8)	41	130
Total net revenues after provision for loan losses	$17,580	$15,517	$54,817	$60,872
Non-interest expenses	16,640	17,829	49,967	55,896
Segment income (loss) before income tax expense and non-controlling interest	$940	$(2,312)	$4,850	$4,976
Segment assets	$64,343	$67,611	$64,343	$67,611
Asset Management				
Non-interest revenues	$2,016	$2,228	$25,172	$16,765
Net interest income	75	170	156	189
Total net revenues after provision for loan losses	$2,091	$2,398	$25,328	$16,954
Non-interest expenses	4,833	4,870	15,481	14,857
Segment (loss) income before income tax expense and non-controlling interest	$(2,742)	$(2,472)	$9,847	$2,097
Segment assets	$103,444	$78,915	$103,444	$78,915
Corporate Credit				
Non-interest revenues	$237	$1,667	$3,022	$15,423
Net interest expense	(1,870)	(1,611)	(5,861)	(579)
Provision for loan losses	(71)	(123)	(1,812)	(477)
Total net revenues after provision for loan losses	$(1,704)	$(67)	$(4,651)	$14,367
Non-interest (expenses) income	(369)	323	(706)	7,755
Segment (loss) income before income tax expense and non-controlling interest	$(1,335)	$(390)	$(3,945)	$6,612
Segment assets	$496,316	$478,019	$496,316	$478,019
Corporate				
Non-interest revenues	$534	$(297)	$1,553	$349
Net interest income (expense)	50	(124)	142	(401)
Total net revenues after provision for loan losses	$584	$(421)	$1,695	$(52)
Non-interest expenses	2,937	518	9,972	8,321
Segment loss before income tax expense and non-controlling interest	$(2,353)	$(939)	$(8,277)	$(8,373)
Segment assets	$136,988	$135,041	$136,988	$135,041
Eliminations				
Non-interest revenues	$(420)	$(52)	$(1,083)	$(403)
Total net revenues after provision for loan losses	$(420)	$(52)	$(1,083)	$(403)
Non-interest expenses	(406)	(52)	(944)	(403)
Segment loss before income tax expense and non-controlling interest	$(14)	$-	$(139)	$-
Segment assets	$(116,609)	$(112,624)	$(116,609)	$(112,624)
Consolidated Entity				

Non-interest revenues	$19,956	$19,071	$83,440	$92,876
Net interest expense	(1,754)	(1,573)	(5,522)	(661)
Provision for loan losses	(71)	(123)	(1,812)	(477)
Total net revenues after provision for loan losses	$18,131	$17,375	$76,106	$91,738
Non-interest expenses	23,635	23,488	73,770	86,426
(Loss) income before income tax expense and non-controlling interest	$(5,504)	$(6,113)	$2,336	$5,312
Total assets	$684,482	$646,962	$684,482	$646,962

21. Summarized Financial Information for Equity Method Investments

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

(In thousands)	September 30, 2012 Net Assets	December 31, 2011 Net Assets
Harvest Opportunity Partners II	$80,716	$74,953
Harvest Small Cap Partners	283,795	324,453
Harvest Franchise Fund	80,271	-
Harvest Agriculture Select	16,917	12,149
Harvest Technology Partners	47,136	24,571
Harvest Diversified Partners	23,986	23,637

(In thousands)	Three Months Ended September 30,			
	2012		2011	
	Net Realized and Unrealized Gains (Losses)	Net Investment Income (Loss)	Net Realized and Unrealized Gains (Losses)	Net Investment Loss
Harvest Opportunity Partners II	$4,623	$(335)	$(1,592)	$(507)
Harvest Small Cap Partners	11,091	(6,211)	22,260	(6,162)
Harvest Franchise Fund	(8,907)	153	-	-
Harvest Agriculture Select	877	(74)	(1,167)	(80)
Harvest Technology Partners	565	(305)	(699)	(173)
Harvest Diversified Partners	932	(91)	(1,464)	(195)

(In thousands)	Nine Months Ended September 30,			
	2012		2011	
	Net Realized and Unrealized Gains (Losses)	Net Investment Loss	Net Realized and Unrealized Gains (Losses)	Net Investment Loss
Harvest Opportunity Partners II	$9,292	$(1,014)	$1,377	$(1,245)
Harvest Small Cap Partners	25,670	(16,597)	46,597	(13,988)
Harvest Franchise Fund	(11,159)	(244)	-	-
Harvest Agriculture Select	2,521	(219)	(631)	(252)
Harvest Technology Partners	1,054	(740)	1,595	(562)
Harvest Diversified Partners	2,414	(317)	297	(581)

22. Subsequent Events

On October 11, 2012, JMP Group LLC entered into an amended and restated credit agreement with City National Bank ("CNB"), which increases the allowable aggregate outstanding balances of all facilities from $55.0 million to $58.5 million, while reducing the revolving subordinated line of credit from $20.0 million to $10.0 million. Pursuant to this amendment, CNB also has agreed to extend a $15.0 million term loan within the allowable aggregate outstanding balances to JMP Group on or prior to March 31, 2013. This term loan would be repaid in quarterly installments of $1.2 million beginning March 31, 2013 and continuing through September 30, 2016, with a final payment of $1.3 million on December 31, 2016.

On October 30, 2012, the Company's board of directors authorized the repurchase of an additional 500 thousand shares, increasing the remaining authorization to 850 thousand as of October 31, 2012, and extended this authorization through December 31, 2013.

In addition, the board declared a cash dividend of $0.035 per share of common stock for the third quarter of 2012 to be paid on November 30, 2012, to common stockholders of record on November 16, 2012.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read together with the unaudited consolidated financial statements and the related notes included elsewhere in this report. For additional context with which to understand our financial condition and results of operations, see the MD&A for the fiscal year ended December 31, 2011 contained in our Annual Report on Form 10-K (the "2011 10-K") filed with the SEC on March 12, 2012, as well as the Consolidated Financial Statements and Notes contained therein.

Cautionary Statement Regarding Forward Looking Statements

This MD&A and other sections of this report contain forward looking statements. We make forward-looking statements, as defined by the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, and in some cases, you can identify these statements by forward-looking words such as "if," "shall," "may," "might," "will likel result," "should," "expect," "plan," "anticipate," "believe," "estimate," "project," "intend," "goal," "objective," "predict," "pot the negative of these terms and other comparable terminology. These forward-looking statements, which are based on various underlying assumptions and expectations and are subject to risks, uncertainties and other unknown factors, may include projections of our future financial performance based on our growth strategies and anticipated trends in our business. These statements are only predictions based on our current expectations and projections about future events that we believe to be reasonable. There are or may be important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the historical or future results, level of activity, performance or achievements expressed or implied by such forward-looking statements. These factors include, but are not limited to, those discussed under the caption "Risk Factors" in our 2011 10-K. In preparing this MD&A, we presume that readers have access to and have read the MD&A in our 2011 10-K, pursuant to Instruction 2 to paragraph (b) of Item 303 of Regulation S-K. We undertake no duty to update any of these forward-looking statements after the date of filing of this report to conform such forward-looking statements to actual results or revised expectations, except as otherwise required by law.

Overview

JMP Group Inc., together with its subsidiaries (collectively, the "Company", "we" or "us"), is a full-service investment banking and asset management firm headquartered in San Francisco, California. 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 four target industries;
- asset management products and services to institutional investors, high net-worth individuals and for our own account;
- management of collateralized loan obligations; and
- small business lending.

Components of Revenues

We derive revenues primarily from fees earned from our investment banking business, net commissions on our trading activities in our sales and trading business, asset management fees in our asset management business and interest income on collateralized loan obligations and small business lending we manage. 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 capital market transactions and providing advisory services in mergers and acquisitions and other strategic advisory assignments.

Underwriting Revenues

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

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 in valuation analyses. We record strategic advisory revenues when the transactions or the services (or, if applicable, separate components thereof) to be performed are substantially completed, the fees are determinable and collection is reasonably assured.

Private Capital Market and other Revenues

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

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

Brokerage Revenues

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

Asset Management Fees

Asset management fees for hedge funds, hedge funds of funds, private equity funds and Harvest Capital Credit LLC ("HCC") include base management fees and incentive fees earned from managing investment partnerships sponsored by us. Earned base management fees are generally based on the fair value of assets under management or aggregate capital commitments and the fee schedule for each fund and account. We also earn incentive fees based upon the performance of investment funds and accounts. For most of the funds, such fees are based on a percentage of the excess of an investment return over a specified highwater mark or hurdle rate over a defined performance period. For private equity funds, incentive fees are based on a specified percentage of realized gains from the disposition of each portfolio investment in which each investor participates, and we earn after returning contributions by the investors for

that portfolio investment and for all other portfolio investments in which each such investor participates that have been disposed of at the time of distribution.

As of September 30, 2012, the contractual base management fees earned from each of these investment funds ranged between 1% and 2% of assets under management or were 2% of aggregate committed capital. The contractual incentive fees were generally (i) 20%, subject to highwater marks, for the hedge funds; (ii) 5% to 20%, subject to high-water marks or a performance hurdle rate, for the funds of funds; (iii) 20%, subject to high-water marks, for Harvest Growth Capital LLC ("HGC"). Our asset management revenues are subject to fluctuations due to a variety of factors that are unpredictable, including the overall condition of the economy and the securities markets as a whole and our core sectors. These conditions can have a material effect on the inflows and outflows of assets under management, and the performance of our asset management funds. For example, a significant portion of the performance-based or incentive revenues that we recognize are based on the value of securities held in the funds we manage. The value of these securities includes unrealized gains or losses that may change from one period to another. As we consolidate HCC and HGC, the management fees earned at HCS from HCC and HGC are eliminated on consolidation.

Asset management fees for the collateralized loan obligations ("CLOs") we manage currently consist only of senior and subordinated base management fees. We recognize base management fees for the CLOs on a monthly basis over the period in which the collateral management services are performed. The base management fees for the CLOs are calculated as a percentage of the average aggregate collateral balances for a specified period. As we consolidate Cratos CLO, the management fees earned at JMP Credit Advisors LLC ("JMPCA") from Cratos CLO are eliminated on consolidation in accordance with accounting principles generally accepted in the United States ("GAAP"). At September 30, 2012, the contractual senior and subordinated base management fees earned from the CLO were 0.50% of the average aggregate collateral balance for a specified period.

The following tables present certain information with respect to the investment funds managed by HCS and CLOs managed by JMPCA:

(In thousands)	Assets Under Management (1) at		Company's Share of Assets Under Management at	
	September 30, 2012	December 31, 2011	September 30, 2012	December 31, 2011
Funds Managed by HCS:				
Hedge Funds:				
Harvest Opportunity Partners II (2)	$104,657	$74,953	$4,662	$3,931
Harvest Small Cap Partners	283,795	324,453	5,143	5,112
Harvest Franchise Fund	80,271	-	1,797	-
Harvest Agriculture Select (2)	28,981	12,149	2,447	1,995
Harvest Technology Partners (2)	91,539	58,712	115	113
Harvest Diversified Partners	23,986	23,637	14,207	12,921
Private Equity Funds:				
Harvest Growth Capital LLC (3)	43,486	23,691	1,988	1,195
Funds of Funds:				
JMP Masters Fund	51,187	52,853	105	102
REITs:				
New York Mortgage Trust	31,391	34,056	N/A	N/A
Loans:				
Harvest Capital Credit (3)	27,350	10,674	9,452	5,124
HCS Totals	$766,643	$615,178	$39,916	$30,493
CLOs by JMPCA:				
Cratos CLO (3)	470,997	474,138	N/A	N/A
Other (4)	-	107,274	N/A	N/A
JMPCA Totals	$470,997	$581,412	$N/A	$N/A
JMP Group Inc. Totals	$1,237,640	$1,196,590	$39,916	$30,493

(1) For hedge funds, private equity funds and funds of funds, assets under management represent the net assets of such funds. For NYMT, assets under management represent the portion of the net assets of NYMT that is subject to the incentive fee calculation. In connection with its investment in NYMT, in January 2008, we entered into an advisory agreement between HCS and NYMT. The advisory agreement was amended effective July 26, 2010. Under the amended advisory agreement, HCS managed certain assets of NYMT, which were subject to the base advisory fee and incentive fee calculations, and received an annual consulting fee equal to $1.0 million. On December 31, 2011, the amended advisory agreement was terminated, pending certain contingent advisory obligations. For CLOs, assets under management represent the sum of the aggregate collateral balance and restricted cash to be reinvested in collateral, upon which management fees are earned.

(2) Harvest Opportunity Partners II ("HOP II"), Harvest Agriculture Select ("HAS"), and Harvest Technology Partners ("HTP") include managed accounts in which the Company has neither equity investment nor control. These are included as they follow the respective funds' strategies and earn fees.

(3) HGC, HCC and Cratos CLO were consolidated in the Company’s Statements of Financial Condition at September 30, 2012 and December 31, 2011.

(4)

The CLO within Other initiated liquidation proceedings in December 2011. The remaining assets were distributed in 2012.

(In thousands)	Three Months Ended September 30, 2012			Three Months Ended September 30, 2011		
	Company's Share of Change in Fair Value	Management Fee	Incentive Fee	Company's Share of Change in Fair Value	Management Fee	Incentive Fee
Hedge Funds:						
Harvest Opportunity Partners II (1)	$231	185	290	$(91)	$ 164	$-
Harvest Small Cap Partners	91	1,275	883	258	1,378	3,068
Harvest Franchise Fund	(193)	241	-	-	-	-
Harvest Agriculture Select (1)	113	64	101	(253)	21	-
Harvest Technology Partners (1)	1	268	-	(3)	179	-
Harvest Diversified Partners	507	42	57	(764)	73	-
Private Equity Funds:						
Harvest Growth Capital LLC (2)	(131)	167	190	(149)	203	-
Funds of Funds:						
JMP Masters Fund	1	119	-	(3)	152	-
REITs:						
New York Mortgage Trust	-	-	235	(283)	255	102
Loans:						
Harvest Capital Credit (2)	N/A	78	131	N/A	1	-
CLOs:						
Cratos CLO (2)	N/A	594	-	N/A	594	-
Other (3)	N/A	-	-	N/A	296	-
Totals	$620	$ 3,033	$1,887	$(1,288)	$ 3,316	$3,170

(1) HOP II, HAS and HTP include managed accounts in which the Company has neither equity investment nor control. These are included with the funds, as they follow the respective strategies and earn fees.

(2) Revenues earned from HGC, HCC, and Cratos are consolidated and then eliminated in consolidation in the Company's Statements of Operations, net of non-controlling interest.

(3) The CLO within Other initiated liquidation proceedings in December 2011. The remaining assets were distributed in 2012.

(In thousands)	Nine Months Ended September 30, 2012			Nine Months Ended September 30, 2011		
	Company's Share of Change in Fair Value	Management Fee	Incentive Fee	Company's Share of Change in Fair Value	Management Fee	Incentive Fee
Hedge Funds:						
Harvest Opportunity Partners II (1)	$453	473	401	$34	$ 516	$96
Harvest Small Cap Partners	193	4,174	1,624	535	3,939	5,467
Harvest Franchise Fund	(203)	595	-	-	-	-
Harvest Agriculture Select (1)	353	144	200	(180)	64	31
Harvest Technology Partners (1)	(8)	692	618	9	427	508

Harvest Diversified Partners	1,229	128	120	(80)	225	118
Private Equity Funds:						
Harvest Growth Capital LLC (2)	394	493	266	(49)	609	-
Funds of Funds:						
JMP Masters Fund	3	365	-	-	455	-
REITs:						
New York Mortgage Trust	87	500	663	6	795	1,566
Loans:						
Harvest Capital Credit (2)	N/A	157	298	N/A	1	-
CLOs:						
Cratos CLO (2)	N/A	1,787	-	N/A	1,778	-
Other (3)	N/A	24	-	N/A	886	-
Totals	$2,501	$ 9,532	$4,190	$275	$ 9,695	$7,786

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(1) HOP II, HAS and HTP include managed accounts in which the Company has neither equity investment nor control. These are included with the funds, as they follow the respective strategies and earn fees.

(2) Revenues earned from HGC, HCC, and Cratos are consolidated and then eliminated in consolidation in the Company's Statements of Operations, net of non-controlling interest.

(3) The CLO within Other initiated liquidation proceedings in December 2011. The remaining assets were distributed in 2012.

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. Principal transaction revenues also include unrealized gains and losses on the private equity securities owned by HGC, a private equity fund managed by HCS which is consolidated in our financial statements, as well as unrealized gains and losses on the investments in private companies sponsored by HCS and JMP Capital LLC ("JMP Capital").

Gain on Sale and Payoff of Loans

Gain on sale and payoff of loans consists of gains from the sale and payoff of loans collateralizing asset-backed securities at JMP Credit Corporation ("JMP Credit"). Gains are recorded when the proceeds exceed our carrying value of the loan. Gain on sale and payoff of loans also consists of lower of cost or market adjustments arising from loans held for sale. Losses are recorded when the carrying value exceeds fair value.

Net Dividend Income

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

Other Income

Other income includes loan restructuring fees at JMP Credit and revenues from fee sharing arrangements with, and fees earned to raise capital for third-party investment partnerships, or funds. Other income also includes non-recurring revenues associated with the conclusion of HCS's advisory relationship with NYMT. Refer to Note 2 in the Company's 2011 10-K for additional information regarding the termination of the advisory agreement between HCS and NYMT.

Interest Income

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

Interest Expense

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

Provision for Loan Losses

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

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

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

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

Components of Expenses

We classify our expenses as compensation and benefits, administration, brokerage, clearing and exchange fees, travel and business development, communications and technology, professional fees, impairment loss on purchased management contract and other expenses. A significant portion of our expense base is variable, including compensation and benefits, brokerage clearing and exchange fees, travel and business development and communication and technology expenses.

Compensation and Benefits

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

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

Administration

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

Brokerage, Clearing and Exchange Fees

Brokerage, clearing and exchange fees include the cost of floor and electronic brokerage and execution, securities clearance, and exchange fees. We clear our securities transactions through J.P. Morgan Clearing Corp. Changes in brokerage, clearing and exchange fees fluctuate largely in line with the volume of sales and trading activity.

Travel and Business Development

Travel and business development expense is net of expenses reimbursed by clients.

Communications and Technology

Communications and technology expense primarily relates to communication and information processing as well as the subscription of certain market data.

Professional Fees

Professional fees primarily relate to legal and accounting professional services.

Impairment Loss on Purchased Management Contract

Impairment loss on purchased management contract relates to a CLO management contract we purchased from Princeton Advisory Group, Inc. on September 8, 2010 for $3.8 million. Because a single investor had previously acquired control of the right to transfer the management contract without cause at any time with 90 days' notice, we initially recorded an impairment charge of $2.8 million for the quarter ended September 30, 2010 and an additional impairment charge of $0.7 million in the quarter ended March 31, 2011. The CLO began liquidation proceedings in December 2011. The remaining assets will be distributed in 2012. See Note 9 in the 2011 10-K for further information.

Other Expenses

Other operating expenses primarily include occupancy, depreciation and CLO administration expense at JMP Credit.

Non-controlling Interest

Non-controlling interest for nine months ended September 30, 2012 includes the interest of third parties in Cratos CLO, HGC, and HCC, partially-owned subsidiaries consolidated in our financial statements. Non-controlling interest for the nine months ended September 30, 2011 includes the interest of third parties in Cratos CLO and HGC, partially-owned subsidiaries consolidated in our financial statements.

We follow the authoritative guidance under GAAP regarding the determination of whether a general partner, or the general partners as a group, controls a limited partnership or similar entity when the limited partners have certain rights. Such guidance applies when a general partner controls a limited partnership and is required to consolidate the limited partnership in its financial statements. Under the guidance, the general partner in a limited partnership is presumed to control the limited partnership regardless of the extent of the general partners' ownership interest in the limited partnership. If the limited partners have either (a) the substantive ability to liquidate the limited partnership or otherwise remove the general partner without cause or (b) substantive participating rights, the general partner does not control the limited partnership.

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

On August 6, 2010, along with individual employee security holders (the “Unitholders”) of JMP Credit, we entered into an Exchange Agreement providing for, among other things, an offer to buy the minority interest units and shares in JMP Credit held by the Unitholders in exchange for a combination of (i) restricted common stock of the Company par value $.001 per share, (ii) cash and (iii) certain Cratos CLO subordinated notes. In connection with the Exchange Agreement, we issued an aggregate of 381,310 shares of restricted stock and transferred 109 subordinated notes to the Unitholders and we received all the remaining units and shares of JMP Credit that we did not previously own. The restricted stock and the Cratos CLO notes are subject to limitations on transfer and our repurchase rights in the event of certain terminations of the Unitholder’s employment with the Company or its affiliates through June 1, 2013. As a result of the aforementioned transaction, we own 100% of JMP Credit and approximately 94% of the subordinated notes of Cratos CLO.

On August 18, 2011, HCS entered into an investment management and advisory agreement with HCC. HCC makes direct investments in the form of subordinated debt and, to a lesser extent, senior debt and minority equity investments, in privately-held U.S. small to mid-size companies. HCC commenced operations in September 2011. HCS acts as its investment advisor, earning a base management fee equal to 2% annually of the gross assets acquired with equity. HCS does not charge a base management fee on assets funded through the Company's line of credit. JMP Credit Advisors provides HCC with its administrative services, and is reimbursed its expenses, including the allocable percentage of the compensation costs for the employees performing services under the agreement. The Company consolidates HCC into its consolidated financial statements.

Results of Operations

The following table sets forth our results of operations for the three and nine months ended September 30, 2012 and 2011 and is not necessarily indicative of the results to be expected for any future period.

(In thousands)	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Change from 2011 to 2012 $	Change from 2011 to 2012 %
Revenues				
Investment banking	$12,218	$10,048	$2,170	21.6 %
Brokerage	5,371	6,898	(1,527)	-22.1 %
Asset management fees	3,755	5,694	(1,939)	-34.1 %
Principal transactions	(1,955)	(6,290)	4,335	-68.9 %
Gain on sale and payoff of loans	204	1,373	(1,169)	-85.1 %
Net dividend (expense) income	(2)	322	(324)	-100.6 %
Other income	365	1,026	(661)	-64.4 %
Non-interest revenues	19,956	19,071	885	4.6 %
Interest income	8,333	7,451	882	11.8 %
Interest expense	(10,087)	(9,024)	(1,063)	11.8 %
Net interest expense	(1,754)	(1,573)	(181)	11.5 %
Provision for loan losses	(71)	(123)	52	-42.3 %
Total net revenues after provision for loan losses	18,131	17,375	756	4.4 %
Non-interest expenses				
Compensation and benefits	17,358	15,970	1,388	8.7 %
Administration	1,645	2,246	(601)	-26.8 %
Brokerage, clearing and exchange fees	902	1,275	(373)	-29.3 %
Travel and business development	746	1,107	(361)	-32.6 %
Communication and technology	909	1,013	(104)	-10.3 %
Professional fees	967	806	161	20.0 %
Other	1,108	1,071	37	3.5 %
Total non-interest expenses	23,635	23,488	147	0.6 %
Loss before income tax expense	(5,504)	(6,113)	609	-10.0 %
Income tax benefit	(894)	(1,410)	516	-36.6 %
Net loss	(4,610)	(4,703)	93	-2.0 %
Less: Net loss attributable to non-controlling interest	(2,934)	(3,080)	146	-4.7 %
Net loss attributable to JMP Group Inc.	$(1,676)	$(1,623)	$(53)	3.3 %

(In thousands)	Nine Months Ended September 30,		Change from 2011 to 2012	
	2012	2011	$	%
Revenues				
Investment banking	$38,010	$40,332	$(2,322)	-5.8%
Brokerage	16,275	19,370	(3,095)	-16.0%
Asset management fees	10,721	14,893	(4,172)	-28.0%
Principal transactions	12,309	(106)	12,415	N/A
Gain on sale and payoff of loans	2,643	14,981	(12,338)	-82.4%
Net dividend (expense) income	(25)	870	(895)	-102.9%
Other income	3,507	2,536	971	38.3%
Non-interest revenues	83,440	92,876	(9,436)	-10.2%