JMP Group Inc.
Form 10-Q
November 04, 2008
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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, 2008

OR

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

Commission File Number: 001-33448

JMP Group Inc.

(Exact name of registrant as specified in its charter)

Delaware	**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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer ¨	Non-accelerated filer x 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, 2008 was 19,805,230.

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AVAILABLE INFORMATION

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

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

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

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

JMP Group Inc.

Consolidated Statements of Financial Condition

	September 30, 2008 Unaudited	December 31, 2007
	Successor	
Assets		
Cash and cash equivalents	$ 49,950,808	$ 99,127,043
Restricted cash and deposits (includes cash on deposit with clearing broker of $255,336 at September 30, 2008 and December 31, 2007)	9,221,218	12,038,511
Receivable from clearing broker	3,378,178	1,475,626
Investment banking fees receivable, net of allowance for doubtful accounts of $99,513 and $156,004 at September 30, 2008 and December 31, 2007	220,182	5,848,754
Marketable securities owned, at fair value	24,232,354	24,220,761
Other investments	43,636,962	27,557,542
Loans receivable, net	8,140,395	1,177,763
Fixed assets, net	1,355,366	1,857,444
Deferred tax assets	9,547,842	2,626,227
Other assets	6,252,351	8,781,592
Total assets	$ 155,935,656	$ 184,711,263
Liabilities and Shareholders Equity		
Liabilities:		
Marketable securities sold, but not yet purchased, at fair value	$ 8,096,859	$ 10,954,013
Securities sold under agreements to repurchase		9,135,000
Note payable	8,680,850	
Accrued compensation	12,915,987	28,154,889
Other liabilities	4,446,251	6,261,842
Total liabilities	34,139,947	54,505,744
Minority interest	11,479,024	14,604,692
Commitments and contingencies		
Shareholders Equity		
Common stock, $0.001 par value, 100,000,000 shares authorized; 22,069,741 and 22,044,541 shares issued at September 30, 2008 and December 31, 2007	22,070	22,045
Additional paid-in capital	127,546,889	121,001,922
Treasury stock (at cost, 2,135,911 shares at September 30, 2008 and 1,418,061 shares at December 31, 2007)	(15,645,622)	(10,884,218)
Retained earnings (deficit)	(1,606,652)	5,461,078
Total shareholders equity	110,316,685	115,600,827
Total liabilities and shareholders equity	$ 155,935,656	$ 184,711,263

See accompanying notes to consolidated financial statements.

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JMP Group Inc.

Consolidated Statements of Net Income (Loss)

(Unaudited)

				Nine Months Ended September 30, 2007	
	Three Months Ended September 30, 2008 Successor	Three Months Ended September 30, 2007 Successor	Nine Months Ended September 30, 2008 Successor	January 1, 2007 through May 15, 2007 Predecessor	May 16, 2007 through September 30, 2007 Successor
Revenues					
Investment banking	$ 4,879,365	$ 9,400,830	$ 23,818,776	$ 16,054,815	$ 16,862,878
Brokerage	9,573,885	8,173,592	26,432,955	12,986,710	12,243,487
Asset management fees	2,292,014	941,800	6,364,634	1,218,467	1,502,018
Principal transactions	(2,726,160)	854,574	(4,788,734)	541,251	684,980
Interest and dividends	1,612,779	1,529,623	4,461,689	1,244,663	2,222,794
Other income	214,191	107,457	922,683	326,105	147,456
Total revenues	15,846,074	21,007,876	57,212,003	32,372,011	33,663,613
Expenses					
Compensation and benefits	17,724,046	13,027,380	44,147,847	18,393,339	24,772,727
Income allocation and accretion					
Redeemable Class A member interests				117,418,274	
Administration	1,257,487	1,248,940	4,610,307	1,770,553	2,128,853
Brokerage, clearing and exchange fees	1,389,384	1,289,525	3,859,357	1,689,174	1,896,307
Travel and business development	845,706	621,822	2,800,676	1,197,440	1,016,178
Communications and technology	912,043	970,488	2,911,598	1,389,647	1,458,413
Occupancy	478,316	472,758	1,426,135	699,774	706,035
Professional fees	636,005	551,897	2,512,950	375,969	1,173,906
Depreciation	239,909	268,640	760,797	525,734	421,805
Interest and dividend expense	121,565	110,850	439,251	683,114	170,156
Loan loss provision	427,882		427,882		
Other	53,030		40,580	(241,082)	120,904
Total expenses	24,085,373	18,562,300	63,937,380	143,901,936	33,865,284
(Loss) income before minority interest and income tax (benefit) expense	(8,239,299)	2,445,576	(6,725,377)	(111,529,925)	(201,671)
Minority interest	(369,208)	303,721	(214,658)	167,388	229,258
Income tax (benefit) expense	(2,971,386)	1,006,408	(2,485,284)		(4,332,431)
Net (loss) income	$ (4,898,705)	$ 1,135,447	$ (4,025,435)	$ (111,697,313)	$ 3,901,502
Net (loss) income per common share:					
Basic	$ (0.24)	$ 0.05	$ (0.20)		$ 0.18
Diluted	$ (0.24)	$ 0.05	$ (0.20)		$ 0.18
Weighted average common shares outstanding:					
Basic	20,035,637	22,029,098	20,317,627		22,027,845
Diluted	20,035,637	22,029,098	20,317,627		22,084,839
Net (loss) per unit-Class A common interests:					
Basic				$ (23.84)	
Diluted				$ (23.84)	
				2,384,881	

Weighted average units outstanding - Class A common interests - basic and diluted		
Net (loss) per unit - Class B common interests:		
Basic	$	(23.84)
Diluted	$	(23.84)
Weighted average units outstanding - Class B common interests - basic and diluted		2,300,000

See accompanying notes to consolidated financial statements.

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JMP Group Inc.

Consolidated Statement of Changes in Shareholders Equity

(Unaudited)

	Shareholders Equity					
	Common Stock		Common Treasury Stock	Additional Paid-In	Retained Earnings	
	Shares	Amount	Amount	Capital	(Deficit)	Total Equity
Successor:						
Balance, December 31, 2007	22,044,541	$ 22,045	$ (10,884,218)	$ 121,001,922	$ 5,461,078	$ 115,600,827
Net loss					(4,025,435)	(4,025,435)
Additonal paid-in capital stock-based compensation	25,200	25		6,588,407		6,588,432
Cash dividends paid to shareholders					(3,041,485)	(3,041,485)
Purchases of shares of common stock for treasury			(4,805,654)			(4,805,654)
Reissue shares of common stock from treasury			44,250	(43,440)	(810)	
Balance, September 30, 2008	22,069,741	$ 22,070	$ (15,645,622)	$ 127,546,889	$ (1,606,652)	$ 110,316,685

See accompanying notes to consolidated financial statements.

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JMP Group Inc.

Consolidated Statements of Cash Flows

(Unaudited)

	Nine Months Ended September 30, 2008 Successor	Nine Months Ended September 30, 2007 January 1, 2007 through May 15, 2007 Predecessor	Nine Months Ended September 30, 2007 May 16, 2007 through September 30, 2007 Successor
Cash flows from operating activities:			
Net (loss) income	$ (4,025,435)	$ (111,697,313)	$ 3,901,502
Adjustments to reconcile net (loss) income to net cash used in operating activities:			
Provision for loan losses and doubtful accounts	468,462	(241,079)	20,906
Amortization of loan origination and commitment fees	(15,744)		
Loan origination and commitment fees	260,000		
Change in other investments:			
Fair value	2,260,394	(430,177)	(279,756)
Incentive fees reinvested in general partnership interests	(1,613,321)	(226,953)	(402,168)
Depreciation and amortization of fixed assets	760,797	525,734	421,805
Minority interest	(214,658)	167,388	229,258
Dividends declared to minority interest shareholders in the form of participation interest			(1,197,238)
Stock-based compensation expense	6,588,432	816,249	5,912,653
Deferred income taxes	(6,921,615)		(4,179,112)
Net change in operating assets and liabilities:			
Decrease in receivables	3,685,440	1,421,098	1,780,465
Increase in marketable securities	(2,194,984)	(3,953,001)	(7,960,252)
Decrease (increase) in restricted cash, deposits and other assets	2,487	(1,271,797)	(3,086,775)
Increase in marketable securities sold, but not yet purchased	1,874,797	1,561,160	272,991
(Decrease) increase in securities sold under agreements to repurchase	(9,135,000)		9,379,000
(Decrease) increase in accrued compensation and other liabilities	(16,355,197)	(15,189,481)	8,742,204
Increase in Redeemable Class A member interests		98,696,930	
Net cash (used in) provided by operating activities	(24,575,145)	(29,821,242)	13,555,483
Cash flows from investing activities:			
Purchases of fixed assets	(258,719)	(60,416)	(259,521)
Purchases of other investments	(19,686,450)	(700,000)	(12,288,858)
Sales of other investments	5,161,783	251,696	171,120
Cash associated with deconsolidation of investment	(4,726,076)		
Funding of loans receivable	(7,956,770)		(3,000,000)
Repayment of loan receivable	322,000		625,000
Repayment of note receivable	335,272		
Net cash used in investing activities	(26,808,960)	(508,720)	(14,752,259)
Cash flows from financing activities:			
Increase (decrease) in notes payable	8,680,850	14,500,000	(14,500,000)
Proceeds from initial public offering, net of expenses			73,122,467
Distributions paid to Class A and Class B common interests		(6,679,874)	
Cash dividends paid to shareholders	(3,041,485)		(550,634)

Purchases of shares of common stock for treasury		(4,805,654)				
Capital contributions of minority interest members and shareholders		1,598,413		200,000		8,488,014
Dividends paid to minority interest shareholders		(224,254)				(25,280)
Net cash provided by financing activities		2,207,870		8,020,126		66,534,567
Net (decrease) increase in cash and cash equivalents		(49,176,235)		(22,309,836)		65,337,791
Cash and cash equivalents, beginning of period		99,127,043		52,328,804		30,080,301
Cash and cash equivalents, end of period	$	49,950,808	$	30,018,968	$	95,418,092
Supplemental disclosures of cash flow information:						
Cash paid during the period for interest	$	230,090	$	1,033,937	$	53,126
Cash paid during the period for taxes	$	6,348,719	$		$	234,337
Non-cash financing activities:						
Issuance of Class A common interests	$		$	401,172	$	
Issuance of JMPRT common stock	$			20,800		

See accompanying notes to consolidated financial statements

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JMP GROUP INC.

Notes to Consolidated Financial Statements

September 30, 2008

(Unaudited)

1. Organization and Description of Business

JMP Group Inc., together with its subsidiaries (collectively, the Company or Successor), is an independent investment banking and asset management firm headquartered in San Francisco. JMP Group Inc. completed its initial public offering on May 16, 2007, and also completed a corporate reorganization (the Reorganization), which is described in greater detail in the Registration Statement on Form S-1 (File No. 333-140689) (the Registration Statement) filed with the Securities and Exchange Commission (SEC) in connection with the initial public offering. The Company conducts its brokerage business through its wholly-owned subsidiary, JMP Securities LLC (JMP Securities), its asset management business through its wholly-owned subsidiary, Harvest Capital Strategies LLC (HCS) (formerly JMP Asset Management LLC, which changed its name to HCS effective September 29, 2008), and certain principal investments through its wholly-owned subsidiary JMP Capital LLC (JMP Capital). JMP Securities is a U.S. registered broker-dealer under the Securities Exchange Act of 1934, as amended, and is a member of the Financial Industry Regulatory Authority (FINRA). JMP Securities operates as an introducing broker and does not hold funds or securities for, or owe any money or securities to, customers and does not carry accounts for customers. All customer transactions are cleared through another broker-dealer on a fully disclosed basis. HCS is a registered investment advisor under the Investment Advisers Act of 1940, as amended, and provides investment management services for sophisticated investors in investment partnerships and other entities managed by HCS.

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 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 for the year ended December 31, 2007 included in its annual report on Form 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.

These financial statements and accompanying notes present the consolidated financial condition of the Successor as of September 30, 2008 and December 31, 2007. Consolidated results of operations and cash flows are presented for the Successor for the periods from May 16, 2007 to September 30, 2008 (post-Reorganization) and for the Predecessor for the periods January 1, 2007 through May 15, 2007 (pre-Reorganization). The Reorganization in connection with the initial public offering resulted in a combination of the Predecessor (JMP Group LLC) and JMP Holdings Inc. (now JMP Group Inc.), whose financial statements had not been combined with those of the Predecessor prior to May 16, 2007 for reporting purposes. Therefore, the Successor s consolidated financial statements as of May 16, 2007 include the accounts of both JMP Group LLC and JMP Group Inc. The consolidated accounts of the Predecessor include the wholly-owned subsidiaries, JMP Securities and HCS, and the partially-owned subsidiaries, JMP Realty Trust (JMPRT), Harvest Consumer Partners (HCP), Harvest Technology Partners (HTP) and Opportunity Acquisition Corp., a special purpose acquisition corporation, or SPAC , formed for the purpose of acquiring one or more businesses through a merger, capital stock exchange, stock purchase, asset acquisition, or other similar business combination. The Company is the sponsor of the SPAC. The consolidated accounts of the Successor include the wholly-owned subsidiaries, JMP Securities and HCS, and the partially-owned subsidiaries, JMPRT, HCP, HTP (through July 31, 2008) and SPAC. All material intercompany accounts and transactions have been eliminated in consolidation.

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

JMPRT is a real estate investment trust that was formed in June 2006. As of September 30, 2008, the Company owned 49.5% of JMPRT and certain employees owned 20.1%. JMPRT is managed by HCS. Because of its current ownership and management position, the Company consolidates JMPRT and records minority interest.

HCS is the general partner of HCP, which commenced operations during 2006. As of September 30, 2008, the Company and its affiliates, officers, and immediate family members provided 82.5% of the invested capital in HCP, due to this ownership and resulting control by the Company and related parties, the Company consolidates HCP in the Company s financial statements and records minority interest.

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

In addition to HTP and HCP, HCS currently manages several other asset management limited partnerships and is a general partner of each. The partnership agreements for these asset management funds provide for the right of the limited partners to remove the general partners by a simple majority vote of the unaffiliated limited partners. This right satisfies all of the criteria enumerated in paragraph 7.b. of Emerging Issues Task Force Issue No. 04-5 (EITF 04-5), *Determining whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights*. As a result, consolidation of these asset management funds is not required.

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Use of Estimates

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

Revenue Recognition

Investment banking revenues

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

Brokerage revenues

Brokerage revenues consist of (i) commissions resulting from equity securities transactions executed as agent or principal and are recorded on a trade date basis, (ii) related net trading gains and losses from market making activities and from the commitment of capital to facilitate customer orders and (iii) fees paid for equity research. The Company currently generates revenues from research activities through three types of arrangements. First, through what is commonly known as a soft dollar practice, a portion of a client s commissions may be compensation for the value of access to our research. Those commissions are recognized on a trade date basis, as the Company has no further obligation. Second, a client may issue a cash payment directly to the Company for access to research. Third, the Company has entered into certain commission-sharing or tri-party arrangements in which institutional clients execute trades with a limited number of brokers and instruct those brokers to allocate a portion of the commission to the Company or to issue a cash payment to the Company. In these commission-sharing or tri-party arrangements, the amount of the fee is determined by the client on a case-by-case basis and agreed to by the Company. An invoice is then sent to the payor. For the second and third type of arrangements, revenue is recognized and an invoice is sent once an arrangement exists, access to research has been provided, a specific amount is fixed or determinable, and collectibility is reasonably assured. None of these arrangements obligate clients to a fixed amount of fees for research, either through trading commissions or direct or indirect cash payments, nor do they obligate the Company to provide a fixed quantity of research or execute a fixed number of trades. Furthermore, the Company is not obligated under any arrangement to make commission payments to third parties on behalf of clients.

Principal transactions

Principal transaction revenues include realized and unrealized net gains and losses resulting from our principal investments in equity and other securities for the Company s account and in equity-linked warrants received from certain investment banking assignments, as well as limited partner investments in private funds managed by third parties. Principal transaction revenues also include earnings (or losses) attributable to investment partnership interests held by our asset management subsidiary, HCS, which are accounted for using the equity method of accounting.

The Company s principal transaction revenues for these categories for the three and nine month periods ended September 30, 2008 and 2007 are as follows:

	Three Months Ended September 30, 2008 Successor	Three Months Ended September 30, 2007 Successor	Nine Months Ended September 30, 2008 Successor	Nine Months Ended September 30, 2007	
				January 1, 2007 through May 15, 2007 Predecessor	May 16, 2007 through September 30, 2007 Successor
Equity and other securities	$ (3,212,385)	$ 303,873	$ (6,028,823)	$ (135,301)	$ 8,310
Warrants and other investments	(39,320)	119,035	99,656	11,904	78,769
Investment partnerships	525,545	431,666	1,140,433	664,648	597,901
Total principal transaction revenues	$ (2,726,160)	$ 854,574	$ (4,788,734)	$ 541,251	$ 684,980

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Asset management fees

Asset management fees consist of base management fees and incentive fees. The Company recognizes base management fees on a monthly basis over the period in which the investment services are performed. Base management fees earned by the Company are generally based on the fair value of assets under management and the fee schedule for each fund and account. Base management fees are calculated at the investor level using their quarter-beginning capital balance adjusted for any contributions or withdrawals. The Company also earns incentive fees that are based upon the performance of investment funds and accounts. Such fees are either a specified percentage of the total investment return of a fund or account or a percentage of the excess of an investment return over a specified highwater mark or hurdle rate over a defined performance period. For most funds, the highwater mark is calculated using the greatest value of a partner s capital account as of the end of any performance period, adjusted for contributions and withdrawals. Incentive fees are recognized as revenue at the end of the specified performance period. The performance period used to determine the incentive fee is quarterly for the hedge funds, JMPRT and NYMT, and annually for the funds of hedge funds managed by HCS. Most of the incentive fees are currently reinvested in the investment funds in which we hold a general partner investment. The incentive fees are not subject to any contingent repayments to investors or any other clawback arrangements.

Cash and Cash Equivalents

The Company considers highly liquid investments with original maturities or remaining maturities upon purchase of three months or less to be cash equivalents.

Restricted Cash and Deposits

Restricted cash consists of proceeds from short sales deposited with brokers that cannot be removed unless the securities are delivered. Deposits consist of cash on deposit for operating leases as well as cash on deposit with JMP Securities clearing broker. At each of September 30, 2008 and December 31, 2007, the Company had $255,336 of cash on deposit with JMP Securities clearing broker.

Receivable from Clearing Broker

The Company clears customer transactions through another broker-dealer on a fully disclosed basis. At September 30, 2008 and December 31, 2007, the receivable from clearing broker consisted solely of commissions related to securities transactions.

Investment Banking Fees Receivable

Investment banking fees receivable include receivables relating to the Company s investment banking or advisory engagements. The Company records an allowance for doubtful accounts on these receivables on a specific identification basis.

Securities Sold Under Repurchase Agreements

Securities sold under repurchase agreements are accounted for as collateralized financing transactions. The liabilities that result from these agreements are recorded in the consolidated statements of financial condition at the amounts at which the securities were sold. As of September 30, 2008 there were no securities sold under repurchase agreements. As of December 31, 2007, the Company pledged owned quasi-government agency securities as collateral for a repurchase agreement outstanding at such time. Interest expense is recorded on an accrual basis and is recorded in the Consolidated Statements of Net Income (Loss).

Fair Value of Financial Instruments

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* as of January 1, 2008. This standard establishes a consistent framework for measuring fair value in accordance with generally accepted accounting principles (GAAP) and expands disclosures with respect to fair value measurements. SFAS 157 applies to all financial instruments that are being measured and reported on a fair value basis. This includes those items currently reported in marketable securities owned, at fair value, other investments and marketable securities sold, not yet purchased, at fair value on the consolidated statements of financial condition. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 4 of the Notes to the consolidated financial statements for a complete discussion of SFAS 157.

Substantially all of the Company s financial instruments are recorded at fair value or amounts that approximate fair value. Marketable securities owned, Other investments, including warrant positions and investments in partnerships in which HCS is the general partner, and Marketable

securities sold, but not yet purchased, are stated at fair value, with related changes in unrealized appreciation or depreciation reflected in the line item Principal transactions in the accompanying Consolidated Statements of Net Income (Loss).

Under SFAS 157, fair value of the Company s financial instruments is generally obtained from quoted market prices, broker or dealer price quotations, or alternative pricing methodologies that the Company believes offer reasonable levels of price transparency. To the extent that certain financial instruments trade infrequently or are non-marketable securities and, therefore, do not have readily determinable fair values, the Company estimates the fair value of these instruments using various pricing models and the information available to the Company that it deems most relevant. Among the factors considered by the Company in determining the fair value of financial instruments are discounted anticipated cash flows, the cost, terms and liquidity of the instrument, the financial condition, operating results and credit ratings of the issuer or underlying company, the quoted market price of publicly traded securities with similar duration and yield, the Black-Scholes Options Valuation methodology adjusted for active market and other considerations on a case-by-case basis and other factors generally pertinent to the valuation of financial instruments.

Marketable securities owned and securities sold, but not yet purchased, consist of U.S. listed and OTC equity securities and quasi-government agency securities. Other investments consist principally of investments in private investment funds managed by the Company or its affiliates and an investment in a private investment fund managed by a third party. Such investments held by non-broker-dealer entities are accounted for under the equity method based on the Company s share of the earnings (or losses) of the investee. The financial position and operating results of the private investment funds are generally determined on an estimated fair value basis as set forth in the AICPA Audit and Accounting Guide*: Investment Companies*. Generally, securities are valued (i) at their last published sale price if they are listed on an established exchange or (ii) if last sales prices are not published, at the highest closing bid price

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

Also included in other investments are convertible preferred stock of New York Mortgage Trust, Inc. (NYMT), and warrants on public and private common stock. The investment in NYMT convertible preferred stock is based on a fair value estimate using the Black-Scholes credit adjusted valuation model on Bloomberg. The warrants on public and private common stock are generally received as a result of investment banking transactions and are valued at estimated fair value as determined by management. Warrants owned are valued at the date of issuance and marked-to-market as of each reporting period. Estimated fair value is determined using the Black-Scholes Options Valuation methodology adjusted for active market and other considerations on a case-by-case basis.

The aforementioned fair value methods represent the Company s best estimate of exit price as defined by SFAS 157.

The Company adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115* (SFAS 159) as of January 1, 2008. SFAS 159 provides companies with an option to report selected financial assets and financial liabilities at fair value. It requires entities to display the fair value of those assets and liabilities for which the company has chosen to use fair value on the face of the balance sheet. The election to use the fair value option is available at specified election dates, such as when an entity first recognizes a financial asset or financial liability or upon entering into a firm commitment. Subsequent changes in fair value must be recorded in the Consolidated Statements of Net Income (Loss). Additionally, SFAS 159 allows for a one-time election for existing positions upon adoption, with the transition adjustment recorded to beginning retained earnings.

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

Investment in NYMT convertible preferred stock; and

Investment in NYMT common stock

There was no adjustment recorded to retained earnings related to the adoption of SFAS 159.

Loans Receivable

Loans receivable include loans held-for-investment and are carried at their unpaid principal balance, net of any reserves for credit losses or deferred loan origination or commitment fees.

For loans receivable classified as held-for-investment, we establish and maintain reserves for credit losses based on management s estimate of credit losses in our loans as of each reporting date. The Company records a reserve against loans receivable on a specific identification basis.

Loan origination and commitment fees are deferred and recognized into Interest and Dividends income in the Consolidated Statements of Net Income (Loss) over the life of the related loan.

Fixed Assets

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

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

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

Income Taxes

The Successor, JMP Group Inc., accounts for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*, (SFAS 109). SFAS 109 requires the recognition of deferred tax assets and liabilities based upon the temporary differences between the financial reporting and tax bases of the assets and liabilities. Valuation allowances are established when necessary to reduce the deferred tax assets when it is more likely than not that a portion or all of the deferred tax assets will not be realized. The Predecessor, JMP Group LLC, was a limited liability company and was treated as a partnership for federal and state income tax purposes. Therefore, the Predecessor was not subject to federal and state income taxes, and accordingly, did not provide for the federal and state income taxes in the financial statements, but it was liable for state and local unincorporated business tax or franchise tax.

For the three and nine months ended September 30, 2008, income taxes are computed based on actual results.

Stock-Based Compensation

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

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

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

Treasury Stock

We account for treasury stock under the cost method, using an average cost flow assumption, and we include treasury stock as a component of shareholders equity.

Reclassification

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

3. Recent Accounting Pronouncements

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

SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of Accounting Research Bulletin No. 51* (SFAS 160). In December 2007 the FASB issued SFAS 160, which requires reporting entities to present noncontrolling (minority) interests as equity (as opposed to as a liability or mezzanine equity) and provides guidance on the accounting for transactions between an entity and noncontrolling interests. SFAS 160 applies to all fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008, except for the presentation and disclosure requirements which will be applied retrospectively for all periods presented. The Company is currently evaluating SFAS 160 and has not yet determined the potential impact on the results of operations or financial condition.

SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS 161). In March 2008, the FASB issued SFAS No. 161, which requires specific disclosures regarding the location and amounts of derivative instruments in the Company s financial statements; how derivative instruments and related hedged items are accounted for; and how derivative instruments and related hedged items affect the Company s financial position, financial performance, and cash flows. SFAS 161 is effective for the first interim or annual period beginning after November 15, 2008. Early application is permitted. The Company is currently evaluating the impact of adoption on its consolidated financial statements.

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

FSP SFAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* (FSP 157-3). In October 2008, the FASB issued FSP 157-3*,* which clarifies the application SFAS No. 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP 157-3 was effective immediately upon issuance and includes prior period financial statements that have not yet been issued, and therefore the Company is subject to the provisions of FSP-157-3 effective September 30, 2008. The implementation of FSP 157-3 did not affect the Company s fair value measurements of financial assets as of September 30, 2008 and had no impact on the results of operations or financial condition.

4. Financial Instruments

As defined in SFAS 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various methods including market, income and cost approaches. Based on these approaches, the Company often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable firm inputs. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Company is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial instrument assets and liabilities carried at fair value have been classified and disclosed in one of the following three categories:

Level 1 Quoted market prices in active markets for identical assets or liabilities.

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Level 2 Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3 Unobservable inputs that are not corroborated by market data.

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

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

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

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

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

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

In determining the appropriate levels, the Company performed a detailed analysis of the assets and liabilities that are subject to SFAS 157. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

The following tables provide fair value information related to the Company s financial assets and liabilities:

	Assets at Fair Value as of September 30, 2008			
	Level 1	Level 2	Level 3	Total
Financial instruments owned, at fair value:				
Marketable Securities Owned:				
Equity securities (2)	$ 16,057,663	$	$	$ 16,057,663
Quasi-government agency securities	8,174,691			8,174,691
Total marketable securities owned	$ 24,232,354	$	$	$ 24,232,354
Other Investments:				
General partner investment in hedge funds	$	$ 23,594,324	$	$ 23,594,324
General partner investment in funds of funds			4,537,356	4,537,356
Total general partner investment in funds		23,594,324	4,537,356	28,131,680
Limited partner investment in private equity fund			2,495,585	2,495,585
Investment in NYMT convertible preferred stock (1)			12,708,675	12,708,675

	Level 1	Level 2	Level 3	Total
Investment in NYMT common stock (2)				
Warrants			301,022	301,022
Total other investments	$	$ 23,594,324	$ 20,042,638	$ 43,636,962

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

(2) NYMT common stock investment, which was recorded as Other Investments in the Level 1 category as of June 30, 2008, has been included in Marketable Securities Owned, At Fair Value in the Consolidated Statements of Financial Condition, beginning the third quarter of 2008.

	Liabilities at Fair Value as of September 30, 2008			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial instruments sold, but not yet purchased, at fair value:				
Marketable securities sold, but not yet purchased	$ 8,096,859	$	$	$ 8,096,859

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The following tables provide a reconciliation of the beginning and ending balances for the assets at fair value using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2008:

	Balance as of June 30, 2008	Purchases/(sales), net	Total gains and (losses) (realized and unrealized)	Transfers in/(out) of Level 3	Balance as of September 30, 2008	Changes in unrealized gains and (losses) included in earnings related to assets still held at reporting date
General partner investment in funds of funds	$ 4,543,753		$ (6,397)	$	$ 4,537,356	$ (6,397)
Limited partner investment in private equity fund	2,462,756	50,600	(17,768)		2,495,588	(17,768)
Investment in NYMT convertible preferred stock	14,065,201		(1,356,526)		12,708,675	(1,356,526)
Warrants	303,764		(2,745)		301,019	(2,745)
Total Level 3	$ 21,375,474	$ 50,600	$ (1,383,436)	$	$ 20,042,638	$ (1,383,436)

	Balance as of December 31, 2007	Purchases/(sales), net	Total gains and (losses) (realized and unrealized)	Transfers in/(out) of Level 3	Balance as of September 30, 2008	Changes in unrealized gains and (losses) included in earnings related to assets still held at reporting date
General partner investment in funds of funds	$ 4,460,971	$	$ 76,385	$	$ 4,537,356	$ 76,385
Limited partner investment in private equity fund	2,282,582	205,600	7,406		2,495,588	7,406
Investment in NYMT convertible preferred stock		15,000,000	(2,291,325)		12,708,675	(2,291,325)
Warrants	300,503		516		301,019	516
Total Level 3	$ 7,044,056	$ 15,205,600	$ (2,207,018)	$	$ 20,042,638	$ (2,207,018)

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

Purchases/sales represent the net amount of Level 3 assets that were either purchased or sold during the period. The amounts were recorded at fair value at the date of the transaction.

Net transfers in/out of Level 3 represent existing financial assets that previously categorized at a higher level. Transfers into or out of Level 3 result from changes in the observability of fair value inputs used in determining fair values for different types of financial assets.

The amount of unrealized gains and losses included in earnings attributable to the change in unrealized gains and losses relating to Level 3 assets still held at the end of the period were reported in Principal Transactions in the accompanying Consolidated Statements of Net Income (Loss). The change in unrealized gains and losses are partially offset by realized gains and losses during the period.

5. Loans Receivable

Loans receivable includes a participation interest in a loan made by JMPRT to a client. The loan is collateralized by real estate related assets and bears interest at the rate of 20% per annum, payable monthly in arrears. The principal of the loan was due and payable on December 1, 2007, but was extended until September 2008 for an additional fee at the borrower s option and in connection with a partial repayment. At September 30, 2008, the loan of $855,763 was in default and we recorded a loan loss provision of $427,882.

The Company has advanced an aggregate of $3.8 million through September 30, 2008 on $7.0 million in non-revolving credit note commitments. In addition, in the third quarter of 2008, the Company made a $4.2 million loan to a private commercial mortgage originator in the form of a note and warrants. The loans bear interest at rates from 12% to 20% per annum with maturity dates ranging from one to five years.

As of September 30, 2008, the Company had a loan loss reserve of $0.4 million recorded against loans receivable. In addition, loans receivable are reported net of $244,256 in deferred loan origination and commitment fees as of September 30, 2008.

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The following table summarizes the loans receivable on the Consolidated Balance Sheets at September 30, 2008 and December 31, 2007:

	September 30, 2008	December 31, 2007
	Successor	
Loans receivable	$ 8,812,533	$ 1,177,763
Reserve for credit losses	(427,882)	
Deferred loan fees	(244,256)	
Total loans receivable, net	$ 8,140,395	$ 1,177,763

6. Fixed Assets

At September 30, 2008 and December 31, 2007, fixed assets consisted of the following:

	September 30, 2008	December 31, 2007
	Successor	
Furniture and fixtures	$ 1,353,594	$ 1,314,278
Computer and office equipment	3,204,341	2,994,005
Leasehold improvements	2,320,338	2,320,338
Software	488,998	479,931
Less: accumulated depreciation	(6,011,905)	(5,251,108)
Total fixed assets, net	$ 1,355,366	$ 1,857,444

Depreciation expense for the three months ended September 30, 2008 and 2007 was $239,909 and $268,640, respectively. Depreciation expense for the nine months ended September 30, 2008 was $760,797, for the period of January 1, 2007 through May 15, 2007 was $525,734 and for the period of May 16, 2007 through September 30, 2007 was $421,805.

7. Note Payable

On August 3, 2006, the Predecessor entered into a revolving note with City National Bank for up to $30.0 million, replacing a prior $10.0 million annual revolving note. Each draw bears interest at the prime rate less 1.25% annually or at LIBOR plus 1.25% annually, at the election of the Company. The Company paid a closing fee of $75,000 and pays an annual unused commitment fee of 0.25% payable quarterly in arrears. There are no periodic principal payments required for this facility until maturity. On March 27, 2008, the Company amended the agreement to extend the expiration date from June 30, 2008 to December 31, 2009, with the option at expiry to extend up to $10.0 million of the revolving note for an additional three years to December 31, 2012. This facility is collateralized by a pledge of the Company s assets, including its interests in each of JMP Securities and HCS. At September 30, 2008, the balance outstanding was $8.7 million. 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 four financial covenants. A violation of any one of these covenants could result in a default under the facility, which would permit the bank to terminate our note and require the immediate repayment of any outstanding principal and interest.

8. Shareholders Equity

Common Stock

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

On August 6, 2008, the Company s board of directors declared a cash dividend of $0.05 per share of common stock for the second quarter of 2008 paid on September 12, 2008 to common shareholders of record on August 29, 2008.

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Stock Repurchase Program

A 1.5 million share repurchase program authorized in August and November 2007 was fully executed as of January 18, 2008. On March 10, 2008, the Company s board of directors authorized the buyback of an additional 2.0 million shares during the subsequent eighteen months. During the quarter ended September 30, 2008, the Company repurchased 314,145 shares of the Company s common stock at an average price of $6.38 per share for an aggregate purchase price of $2,004,250. For the nine months ended September 30, 2008, the Company repurchased 723,850 shares of the Company s common stock at an average price of $6.64 per share for an aggregate purchase price of $4,805,654.

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

9. Stock-Based Compensation

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

Stock Options

The following table summarizes the stock option activity for the nine months ended September 30, 2008:

	Nine Months Ended September 30, 2008	
	Shares Subject to Option	**Weighted Average Exercise Price**
Balance, beginning of year	2,384,890	$ 11.47
Granted		
Exercised		
Forfeited	(22,200)	10.00
Expired	(165,350)	12.19
Balance, end of period	2,197,340	$ 11.43
Options exercisable at end of period	1,691,895	$ 11.82

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

Three Months Ended September 30,	Three Months Ended September 30,	Nine Months Ended September 30,	Nine Months Ended September 30, 2007	
			January 1, 2007 through May 15, 2007	**May 16, 2007 through September 30, 2007**

2008 Successor	2007 Successor	2008 Successor	Predecessor	Successor
$ 11,311	$ 14,839	$ 28,078	$ 740,120	$ 3,234,351

As of September 30, 2008, there was $42,716 of unrecognized compensation expense related to stock options expected to be recognized over a weighted average period of 1.53 years.

Restricted Stock Units

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.

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In determining the 2007 year-end bonus compensation levels, the Company took into consideration certain equity grants. As a result, on January 16, 2008, the Company awarded 1,558,246 RSUs under the JMP Group 2007 Equity Award Plan to all eligible employees. The total fair value of these awards on grant date was $9,128,218. The fair value per unit was based on the market value of the underlying stock on grant date, discounted for post vesting restrictions and future dividends not expected to be received by unvested RSUs over the vesting period. The valuation methodology included an initial assumed expected dividend yield of 3.0%, and a risk-free discount rate of 2.57%. Discounts for post-vesting restrictions were calculated using the Finnerty Model, which was developed to estimate the impact of transfer restrictions on stock prices based on empirical studies.

These RSUs were awarded in three separate tranches. The first tranche of 773,210 units will vest 50% on each of the first and second anniversary of the grant date and is subject to a lockup period until January 15, 2012. The second tranche of 170,104 units will vest 50% on the second anniversary and 25% on each of the third and fourth anniversary of the grant date and is subject to a lockup period until January 15, 2012. The third tranche of 614,930 units will vest 100% on fourth anniversary of the grant date and is subject to a lockup period until January 15, 2014.

The following table summarizes the RSU activity for the nine months ended September 30, 2008:

	Nine Months Ended September 30, 2008	
	Restricted Stock Units	Weighted Average Grant Date Fair Value
Balance, beginning of year	1,943,336	$ 10.30
Granted	1,629,477	5.88
Vested	(31,200)	8.42
Forfeited	(254,543)	9.48
Balance, end of period	3,287,070	$ 8.19

The Company recognizes compensation expense over a graded vesting period using the accelerated attribution method. For the three and nine month periods ended September 30, 2008, the Company recorded non-cash compensation expense of $789,049 and $3,027,717, respectively, in connection with the award of RSUs prior to the initial public offering date. In addition, for the three and nine month periods ended September 30, 2008, the Company recorded non-cash compensation expense of $1,214,611 and $3,532,635, respectively, for RSUs granted after the initial public offering.

For the three and nine month periods ended September 30, 2007, the Predecessor recorded non-cash compensation expense of $0 and $76,129 and the Successor recorded non-cash compensation expense of $1,409,218 and $2,577,699, respectively, in connection with the vesting of the award of restricted stock units on the initial public offering date. The fair value of RSUs was based on the initial public offering price of $11.00 and discounted for future dividends expected not to be received by unvested RSUs over the vesting period. In addition, for the three and nine month periods ended September 30, 2007, the Successor recorded non-cash compensation expense of $100,601 for RSUs granted after the initial public offering.

As of September 30, 2008, there was $16,807,331 of unrecognized compensation expense related to RSUs expected to be recognized over a weighted average period of 2.43 years.

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

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

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

accordingly, is excluded from the calculation of diluted loss per share.

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

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The computations of basic and diluted net income (loss) per share and basic and diluted net income (loss) per unit for the three and nine months ended September 30, 2008 and 2007 are shown in the tables below:

	Three Months Ended September 30, 2008 Successor	Three Months Ended September 30, 2007 Successor
Numerator:		
Net (loss) income	$ (4,898,705)	$ 1,135,447
Denominator:		
Basic weighted average shares outstanding	20,035,637	22,029,098
Effect of potential dilutive securities:		
Options to purchase common shares		
Restricted stock units		
Diluted weighted average shares outstanding	20,035,637	22,029,098
Net (loss) income per share		
Basic	$ (0.24)	$ 0.05
Diluted	$ (0.24)	$ 0.05

Stock options to purchase 2,222,730 and 2,478,180 shares of common stock for the three months ended September 30, 2008 and 2007, respectively, were anti-dilutive and, therefore, were not included in the computation of diluted weighted-average common units or diluted weighted-average common shares outstanding. In addition, restricted stock units for 3,341,689 and 1,906,635 shares of common stock for the three months ended September 30, 2008 and 2007, respectively, were anti-dilutive and, therefore, were not included in the computation of diluted weighted-average common shares outstanding.

		Nine Months Ended September 30, 2007		
	Nine Months Ended September 30, 2008 Successor	January 1, 2007 through May 15, 2007 Predecessor		May 16, 2007 through September 30, 2007 Successor
		Class A Common	Class B Common	
Numerator:				
Net (loss) income	$ (4,025,435)	$ (56,860,528)	$ (54,836,785)	$ 3,901,502
Denominator:				
Basic weighted average Class A and Class B common units outstanding		2,384,881	2,300,000	
Basic weighted average shares outstanding	20,317,627			22,027,845
Effect of potential dilutive securities:				
Options to purchase Class B common interests				
Options to purchase common shares				
Restricted stock units				56,994
Diluted weighted average Class A and Class B common units outstanding		2,384,881	2,300,000	

Diluted weighted average shares outstanding	20,317,627				22,084,839
Net (loss) per unit attributable to Class A and Class B common interests					
Basic		$	(23.84)	$	(23.84)
Diluted		$			