

JMP Group Inc.
Form 10-Q
August 02, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 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
(State or Other Jurisdiction of
Incorporation or Organization)

20-1450327
(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 No

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

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

The number of shares of the Registrant’s common stock, par value \$0.001 per share, outstanding as of July 31, 2012 was 22,741,519.

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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.

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

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

	June 30, 2012	December 31, 2011
Assets		
Cash and cash equivalents	\$63,005	\$70,363
Restricted cash and deposits (includes cash on deposit with clearing broker of \$150 and \$255 at June 30, 2012 and December 31, 2011, respectively)	47,345	48,440
Receivable from clearing broker	1,003	1,138
Investment banking fees receivable, net of allowance for doubtful accounts of zero at June 30, 2012 and December 31, 2011	6,740	2,539
Marketable securities owned, at fair value	15,625	24,309
Incentive fee receivable	1,510	2,097
Other investments (of which \$76,749 and \$51,517 are recorded at fair value at June 30, 2012 and December 31, 2011, respectively)	77,008	51,706
Loans held for sale	2,814	2,957
Small business loans, net of allowance for loan losses	21,454	7,477
Loans collateralizing asset-backed securities issued, net of allowance for loan losses	417,349	410,770
Interest receivable	1,546	1,358
Fixed assets, net	2,255	2,285
Deferred tax assets	21,051	26,221
Other assets	7,223	8,961
Total assets	\$685,928	\$660,621
Liabilities and Equity		
Liabilities:		
Marketable securities sold, but not yet purchased, at fair value	\$12,083	\$10,921
Accrued compensation	24,441	38,143
Asset-backed securities issued	397,906	381,556
Interest payable	644	651
Note payable	27,341	19,222
Deferred tax liability	17,225	23,214
Other liabilities	28,235	30,430
Total liabilities	507,875	504,137
Redeemable Non-controlling Interest	106	50
Commitments and Contingencies		
JMP Group Inc. Stockholders' Equity		
Common stock, \$0.001 par value, 100,000,000 shares authorized; 22,788,019 and 22,069,741 shares issued at June 30, 2012 and December 31, 2011, respectively; 22,741,519 and 21,737,367 shares outstanding at June 30, 2012 and December 31,	23	22

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2011, respectively		
Additional paid-in capital	126,630	132,944
Treasury stock, at cost, 46,500 and 332,374 shares at June 30, 2012 and December 31, 2011, respectively	(284)	(3,011)
Accumulated other comprehensive loss	(82)	(102)
Accumulated deficit	(2,902)	(148)
Total JMP Group Inc. stockholders' equity	123,385	129,705
Nonredeemable Non-controlling Interest	54,562	26,729
Total equity	177,947	156,434
Total liabilities and equity	\$685,928	\$660,621

See accompanying notes to consolidated financial statements.

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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:

	June 30, 2012	December 31, 2011
Restricted cash	\$ 33,984	\$ 36,137
Loans held for sale	2,814	2,957
Loans collateralizing asset-backed securities issued, net of allowance for loan losses	417,349	410,770
Interest receivable	1,188	1,191
Deferred tax assets	5,009	8,567
Other assets	22	40
Total assets of consolidated VIE	\$ 460,366	\$ 459,662
Asset-backed securities issued	397,906	381,556
Interest payable	595	601
Deferred tax liability	15,129	21,791
Other liabilities	2,879	2,042
Total liabilities of consolidated VIE	\$ 416,509	\$ 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.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenues				
Investment banking	\$9,133	\$10,059	\$25,792	\$30,284
Brokerage	5,412	6,187	10,904	12,472
Asset management fees	3,492	6,046	6,966	9,199
Principal transactions	7,780	2,554	14,264	6,184
Gain on sale and payoff of loans	1,449	6,837	2,439	13,608
Net dividend (expense) income	(9)	298	(23)	548
Other income	2,407	682	3,142	1,510
Non-interest revenues	29,664	32,663	63,484	73,805
Interest income				
Interest income	8,260	7,728	15,718	18,348
Interest expense	(9,878)	(8,796)	(19,486)	(17,436)
Net interest (expense) income	(1,618)	(1,068)	(3,768)	912
Provision for loan losses				
Provision for loan losses	(1,429)	(134)	(1,741)	(354)
Total net revenues after provision for loan losses	26,617	31,461	57,975	74,363
Non-interest expenses				
Compensation and benefits	16,704	22,017	38,475	50,248
Administration	1,709	1,744	2,959	2,814
Brokerage, clearing and exchange fees	858	1,179	1,754	2,277
Travel and business development	987	791	1,689	1,461
Communications and technology	825	995	1,733	1,916
Occupancy	721	777	1,538	1,442
Professional fees	718	797	1,357	1,505
Depreciation	217	179	415	337
Impairment loss on purchased management contract	0	0	0	700
Other	(51)	134	215	238
Total non-interest expenses	22,688	28,613	50,135	62,938
Income before income tax expense	3,929	2,848	7,840	11,425
Income tax (benefit) expense	(975)	1,281	(653)	3,764
Net income	4,904	1,567	8,493	7,661
Less: Net income attributable to nonredeemable non-controlling interest	6,529	49	9,766	2,605
Net (loss) income attributable to JMP Group Inc.	\$(1,625)	\$1,518	\$(1,273)	\$5,056
Net (loss) income attributable to JMP Group Inc. per common share:				
Basic	\$ (0.07)	\$ 0.07	\$ (0.06)	\$ 0.23
Diluted	\$ (0.07)	\$ 0.07	\$ (0.06)	\$ 0.22

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Dividends declared per common share	\$	0.035	\$	0.03	\$	0.065	\$	0.05
Weighted average common shares outstanding:								
Basic		22,772		22,254		22,476		22,050
Diluted		22,859		22,613		23,057		22,720

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income	\$ 4,904	\$ 1,567	\$ 8,493	\$ 7,661
Other comprehensive income				
Unrealized gain (loss) on cash flow hedge, net of tax	12	(47)	20	(39)
Comprehensive income	4,916	1,520	8,513	7,622
Less: Comprehensive income attributable to non-controlling interest	6,529	49	9,766	2,605
Comprehensive (loss) income attributable to JMP Group Inc.	\$ (1,613)	\$ 1,471	\$ (1,253)	\$ 5,017

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

JMP Group Inc. Stockholders' Equity
Common Stock

			Additional		Accumulated				
	Shares	Amount	Treasury Stock	Paid-In Capital	Retained Earnings	Other Comprehensive Loss	Nonredeemable Non-controlling Interest	Total Equity	
Balance, December 31, 2011	22,410	\$22	\$(3,011)	\$ 132,944	\$(148)	\$ (102)	\$ 26,729	\$ 156,434	
Net income	-	-	-	-	(1,273)	-	9,766	8,493	
Additional paid-in capital - stock-based compensation	-	-	-	(9,314)	-	-	-	(9,314)	
Cash dividends paid to shareholders	-	-	-	-	(1,481)	-	-	(1,481)	
Purchases of shares of common stock for treasury	-	-	(4,511)	-	-	-	-	(4,511)	
Reissuance of shares of common stock from treasury	-	-	7,238	260	-	-	-	7,498	
	402	1	-	2,740	-	-	-	2,741	

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Common stock issued								
Retirement of shares (24)	-	-	-	-	-	-	-	-
Distributions to non-controlling interest holders	-	-	-	-	-	-	(2,854)	(2,854)
Unrealized gain on cash flow hedge, net of tax	-	-	-	-	-	20	-	20
Capital contributions from non-controlling interest holders (1)	-	-	-	-	-	-	20,921	20,921
Balance, June 30, 2012	22,788	\$23	\$(284)	\$126,630	\$(2,902)	\$ (82)	\$ 54,562	\$177,947

(1) Excludes \$106.3 thousand attributable to redeemable non-controlling interest.

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30,	
	2012	2011
Cash flows from operating activities:		
Net income	\$ 8,493	\$ 7,661
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Provision for loan losses	1,741	354
Accretion of deferred loan fees	(671)	(762)
Amortization of liquidity discount, net	14,175	8,533
Gain on sale and payoff of loans	(2,439)	(13,608)
Change in other investments:		
Fair value	(11,177)	(4,618)
Incentive fees reinvested in general partnership interests	(1,062)	(2,410)
Realized gain on other investments	(1,024)	0
Impairment loss on purchased management contract	0	700
Depreciation and amortization of fixed assets	415	337
Stock-based compensation expense	388	1,026
Deferred income taxes	(694)	2,302
Net change in operating assets and liabilities:		
(Increase) decrease in interest receivable	(188)	87
Increase in receivables	(6,034)	(925)
Decrease (increase) in marketable securities	8,684	(1,812)
Decrease in restricted cash (excluding restricted cash reserved for lending activities), deposits and other assets	850	6,781
Increase in deferred tax liabilities	(125)	0
Increase in marketable securities sold, but not yet purchased	1,162	1,950
Decrease in interest payable	(7)	(16)
Decrease in accrued compensation and other liabilities	(15,361)	(10,139)
Net cash used in operating activities	(2,874)	(4,559)
Cash flows from investing activities:		
Purchases of fixed assets	(384)	(921)
Purchases of other investments	(16,689)	(10,126)
Sales of other investments	7,229	4,576
Funding of loans collateralizing asset-backed securities issued	(86,371)	(160,044)
Funding of small business loans	(14,863)	0
Sale and payoff of loans collateralizing asset-backed securities issued	67,277	148,723
Principal receipts on loans collateralizing asset-backed securities issued	17,088	16,706
Principal receipts on loans held for investment	0	813
Net change in restricted cash reserved for lending activities	1,983	(5,410)
Net cash used in investing activities	(24,730)	(5,683)

See accompanying notes to consolidated financial statements.

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

Cash flows from financing activities:		
Proceeds from borrowing on line of credit	12,487	0
Repayment of note payable	(4,368)	(2,619)
Cash dividends paid to stockholders	(1,481)	(1,001)
Purchases of shares of common stock for treasury	(4,511)	(3,320)
Capital contributions of redeemable non-controlling interest holders	20,917	8,748
Capital contributions of nonredeemable non-controlling interest holders	56	0
Distributions to non-controlling interest shareholders	(2,854)	(900)
Excess tax benefit related to stock-based compensation	0	(335)
Net cash provided by financing activities	20,246	573
Net decrease in cash and cash equivalents	(7,358)	(9,669)
Cash and cash equivalents, beginning of period	70,363	71,114
Cash and cash equivalents, end of period	\$63,005	\$61,445
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	\$3,141	\$2,594
Cash paid during the period for taxes	\$745	\$5,598
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	\$7,238	\$5,530

See accompanying notes to consolidated financial statements.

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JMP GROUP INC.
Notes to Consolidated Financial Statements
June 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 June 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.

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4. Fair Value Measurements

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

(In thousands)	Carrying Value	At June 30, 2012			
		Level 1	Level 2	Level 3	Total
Assets:					
Marketable securities owned	\$15,625	\$15,625	\$0	\$0	\$15,625
Other investments	76,749	1,581	28,141	47,027	76,749
Loans held for sale (1)	2,814	0	2,814	0	2,814
Small business loans, net of allowance for loan losses (2), (3)	21,454	0	5,867	16,490	22,357
Loans collateralizing asset-backed securities issued, net of allowance for loan losses (2), (4)	417,349	0	417,873	10,598	428,471
Total assets:	\$533,991	\$17,206	\$454,695	\$74,115	\$546,016
Liabilities:					
Marketable securities sold, but not yet purchased	\$12,083	\$12,083	\$0	\$0	\$12,083
Asset-backed securities issued (2)	397,906	0	384,105	0	384,105
Note payable (2)	27,341	0	27,341	0	27,341
Total liabilities:	\$437,330	\$12,083	\$411,446	\$0	\$423,529

(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.

(In thousands)	Carrying Value	At December 31, 2011			
		Level 1	Level 2	Level 3	Total
Assets:					
Marketable securities owned	\$24,309	\$24,309	\$0	\$0	\$24,309
Other investments	51,517	3,434	24,072	24,011	51,517
Loans held for sale (1)	2,957	0	2,979	0	2,979
Small business loans, net of allowance for loan losses (2), (3)	7,477	0	3,790	4,000	7,790
Loans collateralizing asset-backed securities issued, net of allowance for loan losses (2), (4)	410,770	0	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	\$0	\$0	\$10,921
Asset-backed securities issued (2)	381,556	0	375,902	0	375,902

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Note payable (2)	19,222	0	19,222	0	19,222
Total liabilities:	\$411,699	\$10,921	\$395,124	\$0	\$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 June 30, 2012 and December 31, 2011:

(In thousands)	June 30, 2012			Total
	Level 1	Level 2	Level 3	
Other investments:				
General partner investment in hedge funds	\$0	\$26,466	\$0	\$26,466
General partner investment in funds of funds	0	0	104	104
Total general partner investment in funds	0	26,466	104	26,570
Limited partner investment in private equity fund	0	0	2,741	2,741
Warrants and other	0	0	782	782
Equity securities in HGC and JMP Capital	1,581	1,675	43,400	46,656
Total other investments	\$1,581	\$28,141	\$47,027	\$76,749

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(In thousands)	December 31, 2011			
	Level 1	Level 2	Level 3	Total
Other investments:				
General partner investment in hedge funds	\$0	\$24,072	\$0	\$24,072
General partner investment in funds of funds	0	0	102	102
Total general partner investment in funds	0	24,072	102	24,174
Limited partner investment in private equity fund	0	0	2,585	2,585
Warrants and other	0	0	617	617
Equity securities in HGC and JMP Capital	3,426	0	20,707	24,133
Interest rate cap	8	0	0	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 June 30, 2012 and 2011.

(In thousands)	Balance as of March 31, 2012	Purchases	Sales	Total gains (losses) - realized and unrealized included in earnings (1)	Transfers in/(out) of Level 3	Balance as of June 30, 2012	Unrealized gains/(losses) included in earnings related to assets still held at reporting date
General partner investment in funds of funds	\$105	\$0	\$0	\$(1)	\$0	\$104	\$ 2
Limited partner investment in private equity fund	2,625	0	(49)	165	0	2,741	165
Warrants and other	805	2	0	(25)	0	782	(25)
Equity securities in HGC and JMP Capital	31,963	5,100	0	6,337	0	43,400	6,337
Total Level 3 assets	\$35,498	\$5,102	\$(49)	\$6,476	\$0	\$47,027	\$ 6,476

(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 March 31, 2011	Purchases	Sales	Total gains (losses) - realized and unrealized included in earnings	Transfers in/(out) of Level 3	Balance as of June 30, 2011	Unrealized gains/(losses) included in earnings related to assets still held at
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General partner investment in funds of funds	\$106	\$0	\$0	\$(1) \$0	\$105	\$ (1)
Limited partner investment in private equity fund	3,220	0	0	(36) 0	3,184	(36)
Warrants	805	0	0	256	0	1,061	256	
Equity securities in HGC and JMP Capital	12,149	6,954	0	(198) (1,705) 17,200	(198)
Total Level 3 assets	\$16,280	\$6,954	\$0	\$21	\$(1,705) \$21,550	\$ 21	

(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.

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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 six months ended June 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 in/(out) of Level 3	Balance as of June 30, 2012	Unrealized gains/(losses) included in earnings related to assets still held at reporting date
General partner investment in funds of funds	\$ 102	\$ 0	\$ 0	\$ 2	\$ 0	\$ 104	\$ 2
Limited partner investment in private equity fund	2,585	0	(49)	205	0	2,741	205
Warrants and other	617	2	0	163	0	782	163
Equity securities in HGC and JMP Capital	20,707	14,502	0	9,104	(913)	43,400	9,104
Total Level 3 assets	\$ 24,011	\$ 14,504	\$ (49)	\$ 9,474	\$ (913)	\$ 47,027	\$ 9,474

(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 gains (losses) - realized and unrealized included in earnings (1)	Transfers in/(out) of Level 3	Balance as of June 30, 2011	Unrealized gains/(losses) included in earnings related to assets still held at reporting date
General partner investment in funds of funds	\$ 102	\$ 0	\$ 0	\$ 3	\$ 0	\$ 105	\$ 3
Limited partner investment in private equity fund	3,063	0	0	121	0	3,184	121
Warrants and other	532	15	0	514	0	1,061	514
	11,245	8,342	0	1,736	(4,123)	17,200	1,736

Equity
securities in
HGC and JMP
Capital

Total Level 3 assets	\$ 14,942	\$ 8,357	\$ 0	\$ 2,374	\$ (4,123)	\$ 21,550	\$ 2,374
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(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 (or changes in net assets) 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 six months ended June 30, 2012 and 2011. There were no transfers in/out of Level 2 for the three months ended June 30, 2012. There was a transfer into Level 2 from Level 3 of \$0.9 million for the six months ended June 30, 2012 as a result of the observability of fair value associated with the equity securities in HGC and JMP Capital. There was a transfer into Level 2 from Level 3 of \$4.1 million for the three months ended June 30, 2011 as 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 six months ended June 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 June 30, 2012, the Company had unfunded investment commitments of \$0.1 million related to private investment funds managed by third parties.

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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 June 30, 2012	Valuation Technique	Unobservable Input	Range (Weighted Average)
General Partner in Funds of Funds (1)	\$ 104	Net Asset Value	N/A	N/A
Limited Partner in Private Equity Fund (1)	\$ 2,741	Net Asset Value	N/A	N/A
Warrants and Other	\$ 782	Black-Scholes Option Model	Annualized volatility of credit (2)	15.7% - 35.5% (15.8%)
Equity securities in HGC and JMP Capital	\$ 43,400	Market comparable companies	Revenue multiples (3)	2.4x - 7.9x (4.2x)
			EBITDA multiples (3)	7.0x - 26.9x (13.3x)
			Free cash flow multiples (3)	23.7x - 65.5x (38.8x)
			Discount for lack of marketability (4)	30% - 40% (34%)
		Market transactions	Revenue multiples (3)	3.3x - 7.1x (4.9x)
			EBITDA multiples (3)	11.5x - 25.9x (17.7x)
			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 Wealth Services LLC (“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 June 30, 2012.

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 \$14.9 million at June 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 six months ended June 30, 2012, the Company recorded \$1,037 and \$7,514 of other comprehensive loss representing unrealized loss on the interest rate cap, respectively. In addition, for the three and six months ended June 30, 2012, \$13,674 and \$27,348, respectively, were reclassified from accumulated other comprehensive income into interest expense as amortization of the interest cap.

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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 June 30, 2012, the \$21.5 million net loans outstanding were commercial loans. The following table summarizes the components of this small business loan receivable balance:

(In thousands)	June 30, 2012	December 31, 2011
Small business loans	\$ 22,863	\$ 8,000
Allowance for loan losses	(757)	(216)
Deferred loan fees	(652)	(307)
Small business loans, net	\$ 21,454	\$ 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)	
	June 30, 2012	December 31, 2011
Moody's rating:		
B1 - B3	6,000	4,000
NR	16,863	4,000
Total:	\$ 22,863	\$ 8,000
Internal rating:		
Rating 2	22,863	8,000
Total:	\$ 22,863	\$ 8,000
Performance:		
Performing	\$ 22,863	\$ 8,000
Total:	\$ 22,863	\$ 8,000

A summary of the activity in the allowance for loan losses for the three and six months ended June 30, 2012 was as follows:

(In thousands)	Three Months Ended		Six Months Ended	
	June 30, 2012	June 30, 2012	June 30, 2012	June 30, 2012
Balance at beginning of period	\$ (435)	\$ (216)	\$ (435)	\$ (216)
Provision for loan losses	(322)	(541)	(322)	(541)
Loans charged off	0	0	0	0
Recoveries	0	0	0	0
Balance at end of period	\$ (757)	\$ (757)	\$ (757)	\$ (757)

The Company determined the fair value of small business loans to be \$22.4 million and \$7.8 million as of June 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 June 30, 2012 and December 31, 2011:

(In thousands)	Loans Collateralizing Asset-backed Securities		Loans Held for Sale	
	December		December	
	June 30, 2012	31, 2011	June 30, 2012	31, 2011
Loans	\$435,088	\$436,954	\$4,686	\$4,686
Allowance for loan losses	(3,646)	(4,199)	0	0
Liquidity discount	(6,304)	(14,459)	(1,279)	(1,279)
Credit discount	(938)	(1,335)	0	0
Deferred loan fees, net	(6,851)	(6,191)	(156)	(168)
Valuation allowance	N/A	N/A	(437)	(282)
Total loans, net	\$417,349	\$410,770	\$2,814	\$2,957

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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 June 30, 2012:

(In thousands)	Three Months Ended June 30, 2012					
	Principal	Allowance for Loan Losses	Liquidity Discount	Credit Discount	Deferred Loan Fees	Carrying Value, Net
Impaired Loans						
Balance at beginning of period	\$10,520	\$(2,277)	\$(5,907)	\$(1,335)	\$(54)	\$947
Repayments	(55)	0	0	0	0	(55)
Accretion of discount	0	0	54	0	0	54
Write-off/restructuring	(7,167)	1,753	5,017	397	54	54
Provision for loan losses	0	(1,000)	0	0	0	(1,000)
Balance at end of period	\$3,298	\$(1,524)	\$(836)	\$(938)	\$0	\$0
Non-impaired Loans						
Balance at beginning of period	\$426,388	\$(2,015)	\$(6,709)	\$0	\$(6,871)	\$410,793
Purchases / funding	41,591	0	0	0	(1,006)	40,585
Repayments	(8,548)	0	0	0	0	(8,548)
Accretion of discount	0	0	1,241	0	402	1,643
Provision for loan losses	0	(107)	0	0	0	(107)
Sales and payoff	(27,641)	0	0	0	624	(27,017)
Balance at end of period	\$431,790	\$(2,122)	\$(5,468)	\$0	\$(6,851)	\$417,349

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 June 30, 2011:

(In thousands)	Three Months Ended June 30, 2011					
	Principal	Allowance for Loan Losses	Liquidity Discount	Credit Discount	Deferred Loan Fees	Carrying Value, Net
Impaired Loans						
Balance at beginning of period	\$ 7,223	\$ (582)	\$(1,841)	\$(4,763)	\$ 0	\$ 37
Purchases / funding	2	0	0	0	0	2
Repayments	(116)	0	0	0	0	(116)
Accretion of discount	0	0	43	0	0	43
Transfers to/from non-impaired loans, net	6,949	0	(4,153)	0	(54)	2,742
Balance at end of period	\$ 14,058	\$ (582)	\$(5,951)	\$(4,763)	\$(54)	\$ 2,708
Non-impaired Loans						
Balance at beginning of period	\$ 451,339	\$ (1,630)	\$(27,108)	\$ 0	\$(5,733)	\$ 416,868

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Purchases / funding	70,402	0	0	0	(883)	69,519
Repayments	(9,769)	0	0	0	0	(9,769)
Accretion of discount	0	0	1,876	0	334	2,210
Provision for loan losses	0	(134)	0	0	0	(134)
Sales and payoff	(69,916)	0	6,149	0	725	(63,042)
Transfers to/from non-impaired loans, net	(6,949)	0	4,153	0	54	(2,742)
Balance at end of period	\$ 435,107	\$ (1,764)	\$ (14,930)	\$ 0	\$ (5,503)	\$ 412,910

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 six months ended June 30, 2012:

(In thousands)

Six Months Ended June 30, 2012

	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	0	0	0	0	5
Repayments	(78)	0	0	0	0	(78)
Accretion of discount	0	0	71	0	0	71
Write-off/ restructuring	(7,167)	1,753	5,017	397	54	54
Provision for loan losses	0	(1,000)	0	0	0	(1,000)
Balance at end of period	\$3,298	\$(1,524)	\$(836)	\$(938)	\$0	\$0
Non-impaired Loans						
Balance at beginning of period	\$426,416	\$(1,922)	\$(8,535)	\$0	\$(6,137)	\$409,822
Purchases / funding	89,087	0	0	0	(2,721)	86,366
Repayments	(17,010)	0	0	0	0	(17,010)
Accretion of discount	0	0	2,104	0	962	3,066
Provision for loan losses	0	(200)	0	0	0	(200)
Sales and payoff	(66,703)	0	963	0	1,045	(64,695)
Balance at end of period	\$431,790	\$(2,122)	\$(5,468)	\$0	\$(6,851)	\$417,349

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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 six months ended June 30, 2011:

(In thousands)	Six Months Ended June 30, 2011					Carrying Value, Net
	Principal	Allowance for Loan Losses	Liquidity Discount	Credit Discount	Deferred Loan Fees	
Impaired Loans						
Balance at beginning of period	\$ 13,867	\$ (582)	\$ (2,557)	\$ (8,558)	\$ 0	\$ 2,170
Purchases / funding	18	0	0	0	0	18
Repayments	(194)	0	0	0	0	(194)
Accretion of discount	0	0	99	0	0	99
Sales and payoff	(6,582)	0	659	3,795	0	(2,128)
Write-off / restructuring	0	0	0	0	0	0
Transfers to/from non-impaired loans, net	6,949	0	(4,152)	0	(54)	2,743
Balance at end of period	\$ 14,058	\$ (582)	\$ (5,951)	\$ (4,763)	\$ (54)	\$ 2,708
Non-impaired Loans						
Balance at beginning of period	\$ 439,491	\$ (1,410)	\$ (33,037)	\$ 0	\$ (6,451)	\$ 398,593
Purchases / funding	161,579	0	0	0	(1,553)	160,026
Repayments	(16,512)	0	0	0	0	(16,512)
Accretion of discount	0	0	6,125	0	762	6,887
Provision for loan losses	0	(354)	0	0	0	(354)
Sales and payoff	(142,502)	0	7,830	0	1,685	(132,987)
Transfers to/from impaired loans, net	(6,949)	0	4,152	0	54	(2,743)
Balance at end of period	\$ 435,107	\$ (1,764)	\$ (14,930)	\$ 0	\$ (5,503)	\$ 412,910

Allowance for Loan Losses

The Company recorded general reserves of \$0.1 million during both quarters ended June 30, 2012 and 2011 on non-impaired loans. The Company recorded general reserves of \$0.2 million and \$0.4 million during the six months ended June 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 three months ended June 30, 2012.

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

(In thousands)

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	Three Months Ended		Six Months Ended June	
	June 30,		30,	
	2012	2011	2012	2011
Balance at beginning of period	\$(4,292)	\$(2,212)	\$(4,199)	\$(1,992)
Provision for loan losses:				
General reserve	(107)	(134)	(200)	(354)
Specific reserve	(1,000)	0	(1,000)	0
Reversal due to sale, payoff or restructure of loans	1,753	0	1,753	0
Balance at end of period	\$(3,646)	\$(2,346)	\$(3,646)	\$(2,346)

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 June 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 \$419.5 million and \$411.7 million of recorded investment amount of loans collateralizing asset-backed securities issued were collectively evaluated for impairment, as of June 30, 2012 and December 31, 2011 respectively. The entire \$2.8 million and \$3.0 million of recorded investment amount of loans held for sale were individually evaluated for impairment, as of June 30, 2012 and December 31, 2011, respectively.

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

(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
June 30, 2012			
Impaired loans with an allowance recorded	\$ 1,512	\$ 3,298	\$ 1,525
Impaired loans with no related allowance recorded	0	0	0
	\$ 1,512	\$ 3,298	\$ 1,525
December 31, 2011			
Impaired loans with an allowance recorded	\$ 3,223	\$ 10,537	\$ 2,277
Impaired loans with no related allowance recorded	0	0	0
	\$ 3,223	\$ 10,537	\$ 2,277

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Average recorded investment	\$ 2,082	\$ 3,296	\$ 2,653	\$ 3,661
Interest income recognized	\$ 49	\$ 38	\$ 86	\$ 126

Non-Accrual, Past Due Loans and Restructured Loans

At June 30, 2012, two Cash Flow loans with an aggregate principal amount of \$3.3 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 \$49.4 thousand and \$86.3 thousand in interest income, other than the accretion of liquidity discounts, for the impaired loans with a weighted average loan balance of \$2.1 million and \$2.7 million that were on non-accrual status during the three and six months ended June 30, 2012. The Company recognized \$38.3 thousand and \$125.9 thousand in interest income, other than the accretion of liquidity discounts, for the three and four impaired loans with a weighted average loan balance of \$8.9 million and \$10.1 million that were on non-accrual status during the three and six months ended June 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 June 30, 2012 or December 31, 2011.

At December 31, 2011, the Company's impaired loans included two Cash Flow loans, with an aggregated 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 three months ended June 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 quarter. 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 additional restructuring to new or existing TDR loans in the three months ended June 30, 2012. Neither of the loans have had payment defaults since their respective most recent restructuring. At June 30, 2012, the impaired loans included two Cash Flow loans modified in a TDR, with an aggregated recorded investment balance of \$1.5 million. At June 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 each loan and evaluates the credit quality of the 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 June 30, 2012 and December 31, 2011.

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(In thousands)	Cash Flow (CF)		Enterprise Value (EV)		Total Loans Collateralizing Asset-Backed Securities Issued		Held for Sale - Cash Flow (CF)	
	December		December		December		December	
	June 30, 2012	31, 2011	June 30, 2012	31, 2011	June 30, 2012	31, 2011	June 30, 2012	31, 2011
Moody's rating:								
Baa1 - Baa3	\$ 4,920	\$ 4,951	\$ 0	\$ 0	\$ 4,920	\$ 4,951	\$ 0	\$ 0
Ba1 - Ba3	130,655	131,743	0	0	130,655	131,743	0	0
B1 - B3	279,283	271,770	1,949	1,958	281,232	273,728	0	0
Caa1 - Caa3	4,189	4,546	0	0	4,189	4,546	2,814	2,957
Total:	\$ 419,047	\$ 413,010	\$ 1,949	\$ 1,958	\$ 420,996	\$ 414,968	\$ 2,814	\$ 2,957
Internal rating:								
Performing	\$ 408,304	\$ 397,033	\$ 1,949	\$ 1,958	\$ 410,253	\$ 398,991	\$ 0	\$ 0
Moderate	9,231	12,754	0	0	9,231	12,754	0	0
Watchlist (1)	1,512	3,223	0	0	1,512	3,223	2,814	2,957
Non-Accrual								
(1)	0	0	0	0	0	0	0	0
Total:	\$ 419,047	\$ 413,010	\$ 1,949	\$ 1,958	\$ 420,996	\$ 414,968	\$ 2,814	\$ 2,957
Performance:								
Performing	\$ 417,535	\$ 409,787	\$ 1,949	\$ 1,958	\$ 419,484	\$ 411,745	\$ 2,814	\$ 2,957
Non-performing	1,512	3,223	0	0	1,512	3,223	0	0
Total:	\$ 419,047	\$ 413,010	\$ 1,949	\$ 1,958	\$ 420,996	\$ 414,968	\$ 2,814	\$ 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 \$428.5 million and \$420.2 million as of June 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 \$2.8 million and \$3.0 million as of June 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 \$12.5 million as of June 30, 2012.

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 June 30, 2012.

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 \$2.6 million as of June 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 \$12.3 million as of June 30, 2012.

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The two term loans had an aggregate outstanding principal amount of \$14.9 million and \$19.2 million at June 30, 2012 and December 31, 2011, respectively. The following table shows the repayment schedules for the principal portion of the term loans at June 30, 2012:

(In thousands)

Year Ending December 31,	Contractual Payments Due
2012	4,368
2013	8,736
2014	1,750
	\$ 14,854

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 June 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 \$14.9 million at June 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 June 30, 2012 and December 31, 2011.

(In millions)

	Notes Originally Issued	Outstanding Principal Balance	As of June 30, 2012		Interest Rate Spread to LIBOR	Ratings (Moody's /S&P) (1)
			Liquidity Discount	Net Outstanding Balance		
Class A Senior Secured Floating Rate	\$ 326.0	\$ 315.8	\$ (11.8)	\$ 304.0	0.26% - 0.29%	Aaa/AAA

Revolving Notes due 2021						
Class B Senior Secured Floating Rate Notes due 2021	30.0	30.0	(2.9)	27.1	0.50%	Aaa/AA+
Class C Senior Secured Deferrable Floating Rate Notes due 2021	35.0	35.0	(7.1)	27.9	1.10%	Aa3/AA-
Class D Secured Deferrable Floating Rate Notes due 2021	34.0	34.0	(7.0)	27.0	2.40%	A3/BBB+
Class E Secured Deferrable Floating Rate Notes due 2021	30.0	30.0	(6.7)	23.3	5.00%	Ba2/BB-
Total secured notes sold to investors	\$ 455.0	\$ 444.8	\$ (35.5)	\$ 409.3		
Unsecured subordinated notes due 2021	45.0	45.0	(39.9)	5.1		
Total notes for the CLO I offering	\$ 500.0	\$ 489.8	\$ (75.4)	\$ 414.4		
Consolidation elimination	N/A	(58.8)	42.3	(16.5)		
Total asset-backed securities issued	N/A	\$ 431.0	\$ (33.1)	\$ 397.9		

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

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(In millions)	As of December 31, 2011						Ratings (Moody's /S&P) (1)
	Notes Originally Issued	Outstanding Principal Balance	Liquidity Discount	Net Outstanding Balance	Interest Rate Spread to LIBOR		
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 June 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 June 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 six months ended June 30, 2012 was \$9.6 million and \$19.0 million, respectively, which comprised cash coupon of \$1.3 million and \$2.7 million and a liquidity discount amortization of \$8.3 million and \$16.3 million, respectively. Total interest expense related to the asset-backed securities issued for the three and six months ended June 30, 2011 was \$8.6 million and \$17.0 million, respectively, which comprised cash coupon of \$1.1 million and \$2.2 million and a liquidity discount amortization of \$7.5 million and \$14.8 million, respectively. As of June 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 six months ended June 30, 2012 comprised the following:

(In thousands)	Three Months Ended June 30, 2012			Six Months Ended June 30, 2012		
	Principal	Liquidity Discount	Net	Principal	Liquidity Discount	Net
Balance at beginning of period	\$431,003	\$(41,391)	\$389,612	\$431,003	\$(49,447)	\$381,556
Amortization of discount	0	8,294	8,294	0	16,350	16,350
Balance at end of period	\$431,003	\$(33,097)	\$397,906	\$431,003	\$(33,097)	\$397,906

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

(In thousands)	Three Months Ended June 30, 2011			Six Months Ended June 30, 2011		
	Principal	Liquidity Discount	Net	Principal	Liquidity Discount	Net
Balance at beginning of period	\$431,003	\$(72,382)	\$358,621	\$431,003	\$(79,681)	\$351,322
Amortization of discount	0	7,459	7,459	0	14,758	14,758
Balance at end of period	\$431,003	\$(64,923)	\$366,080	\$431,003	\$(64,923)	\$366,080

The Company determined the fair value of asset-backed securities issued to be \$384.1 million and \$375.9 million as of June 30, 2012 and December 31, 2011, respectively.