JMP Group Inc.
Form 10-K
March 08, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2010

OR

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

For the transition period from to

Commission File Number: 001-33448

JMP Group Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

None

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

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

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

The aggregate market value of the common stock held by non-affiliates of the registrant on the last business day of the registrant s most recently completed second fiscal quarter, based upon the closing sale price of the registrant s common stock on June 30, 2010 as reported on The New York Stock Exchange was $97,660,565.

As of February 28, 2011 there were 21,764,152 shares of the registrant s common stock outstanding.

Documents incorporated by reference:

Portions of the registrant s definitive proxy statement to be delivered to stockholders in connection with the 2011 annual meeting of stockholders to be held in June 2011 are incorporated by reference in this Form 10-K.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- the opportunity to grow our investment banking and sales and trading businesses because of the prevalent demand for our services in our five target industries;
- the opportunity to increase our representation of corporate clients as buyers and to grow our mergers and acquisitions and strategic advisory businesses;
- our ability to utilize our expertise to gain new business and benefit from increased trading in the financial services and real estate industries;
- the performance of our investment banking and sales and trading businesses because of declining demand for our services or a decline in the market for securities of companies in our five target industries;
- the possibility of generating stable or growing investment banking revenues due to our ability to engage in multiple types of transactions;
- the growth of our mergers and acquisitions and other strategic advisory business derived from our positions as a lead manager or senior co-manager of public and private securities offerings;
- our plans to continue to provide our equity research and sales and trading products and services to smaller-capitalization companies to benefit institutional investors;
- the characteristics of the asset management business, including its comparatively high margins, the recurring nature of its fee-based revenues, and its dependence on intellectual capital and our belief that this makes the asset management business less susceptible to competitive threats from larger financial institutions;
- a heightened demand for alternative asset management products and services;
- our ability to increase assets under management and develop new asset management products;
- our plans to generate principal investing opportunities from our investment banking and asset management relationships;

our ability to attract, incentivize and retain top professionals and to retain valuable relationships with our clients;

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

our expectations regarding the impact of the trend toward alternative trading systems and downward pricing pressure in the sales and trading business on trading commissions and spreads;

the nature of the competition faced in the investment banking and financial services industries and our expectations regarding trends and changes with respect to competing entities;

our belief that continued future growth will require implementation of enhanced communications and information systems and the training of personnel or the hiring of an outsourced provider to operate such systems;

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the impact of changes in interest rates on the value of interest-bearing assets in which we invest;

our plans for the use of the principal restricted cash at JMP Credit to buy additional loans or pay down CLO notes;

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

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

our ability to take advantage of market opportunities as they arise in 2011 based on the strength of our capital position and the low level of leverage that we have traditionally employed in our business model;

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

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

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

our ability to realize revenues through gain on sale and payoff of loans and gain on repurchase of asset-backed securities;

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

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

the impact of bonus compensation payments to our employees on our cash position;

the potential for unfunded commitments to expire and their impact on future cash requirements;

the impact of additional rulemaking by the Securities and Exchange Commission with respect to soft dollar practices on our brokerage or asset management business;

our expectations regarding the likelihood of increased scrutiny of financial services firms from regulators;

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

the impact of existing claims and currently known threats against us on our business or financial condition;

- our intention to declare dividends, our ability to do so without borrowing funds and our expected dividend rate; and
- that we believe that our available liquidity and current level of equity capital will be adequate to meet our liquidity and regulatory capital requirements for the next twelve months.

The forward-looking statements are based on our beliefs, assumptions and expectations of future performance, taking into account the information currently available to us. These forward-looking statements may include projections of our future financial performance based on our growth strategies and anticipated trends in our business. These statements are only predictions based upon our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements. In particular, you should consider the numerous risks provided under Item 1A Risk Factors in this Form 10-K, including but not limited to the following factors:

- the impact of multiple book runners, co-managers and multiple financial advisors on our revenues;
- our ability to remain competitive against larger investment banks that provide commercial financing;

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the impact of conditions in the global financial markets, such as the level and volatility of interest rates, investor sentiment, the availability and the cost of credit, the U.S. mortgage market, the U.S. real estate market, volatile energy prices, consumer confidence, unemployment, and geopolitical issues on our business and revenues;

the potential for volatility and weakness in the equity markets to adversely impact our sales and trading business, investment banking business, and ability to manage exposure to market risks;

the impact of worsening market conditions on our ability to serve as underwriter or placement agent;

the potential for uncertainty related to creditworthiness, volatility in the equity markets, and diminished access to financing to impact our merger, acquisition and advisory services;

our expectations regarding the effect of a market downturn on transaction volume, and therefore, our revenues;

the impact of securities related write-downs on our securities trading revenues;

the impact of the inability of companies to repay their borrowings on our principal investments;

our expectations regarding the impact of bankruptcies on our investment banking revenues;

the impact of a market downturn on management fees;

the potential for market declines to lead to an increase in litigation and arbitration claims;

our ability to pursue business opportunities in an environment of increased legislative or regulatory initiatives;

the potential for government intervention to have a negative impact on our business;

the impact of any deterioration in the business environment of our target sectors on our revenues;

our expectation that the ability to recruit and retain professionals impacts our reputation, business, results of operations and financial condition;

the impact of larger firms on our ability to grow our business;

the impact of increased competition in the middle-market investment banking space on our market share and revenues;

the possibility of market and non-market factors to impact our stock price;

fluctuations in our stock price related to the performance of our investment banking division;

the impact of certain institutional, sales and trading client pricing arrangements on brokerage revenues;

the potential for larger and more frequent capital commitments in our trading and underwriting business to increase losses;

the potential for increased competition in the asset management sector to affect our ability to raise capital and generate positive economic results;

the impact of investment performance and redemptions on our asset management business;

the potential for fluctuations in the global credit markets to affect our CLO investments;

the impact of principal investment activities on our capital base;

exposure to volatile and illiquid securities and their impact on our business;

the ongoing fluctuations in the credit markets, including reduced access to capital and liquidity, and the costs of credit;

the impact of SEC, FINRA, and various other self-regulatory organization requirements on our business;

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- the potential for risks related to infrastructure and operations to impact our business;
- the potential for risks related to our investment in New York Mortgage Trust, Inc. to adversely impact our business;
- the potential for increased scrutiny of financial services firms to adversely impact our business;
- the business risks posed by, potential conflicts of interest, employee misconduct, and business partner misconduct; and
- the challenges posed when valuing non-marketable investments.

The foregoing list of risks is not exhaustive. Other sections of this Form 10-K may include additional factors which could adversely impact our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for us to predict all risk factors, nor can we assess the impact of all factors or the effect which any factor, or combination of factors, may have on our business. Actual results may differ materially from those contained in any forward-looking statements.

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

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Item 1. Business

Overview

We are a full-service investment banking and asset management firm. We provide investment banking, sales and trading, and equity research services to corporate and institutional clients, and alternative asset management products and services to institutional investors and high net-worth individuals. In addition, we manage and invest in corporate credit instruments through collateralized loan obligations.

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

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

The selection of our five target industries, the development of multiple products and services and the establishment of our three revenue-producing business lines investment banking, equity sales and trading, and asset management has created a diversified business model, especially when compared to that of our more specialized competitors. We have been able to balance somewhat volatile revenue streams from our investment banking activities and incentive-based asset management fees with more stable revenue streams from our sales and trading commissions and base asset management fees. In addition, our target industries have historically performed, in certain respects, counter-cyclically to one another, allowing us to win business and generate revenues in various economic and capital markets conditions. In 2009, as part of our ongoing efforts to diversify our asset management business, we acquired a corporate credit business that operates as a manager of collateralized loan obligations.

Principal Business Lines

JMP Group Inc. (the Company) conducts its primary business activities through three wholly-owned subsidiaries: JMP Securities LLC (JMP Securities), our broker-dealer operation; Harvest Capital Strategies LLC (HCS), our asset management arm, which is an investment adviser registered with the U.S. Securities and Exchange Commission, or SEC; and JMP Credit Advisors LLC (JMP Credit Advisors), our corporate credit operation.

JMP Securities is a U.S. registered broker-dealer under the Securities Exchange Act of 1934, as amended, and is a member of the Financial Industry Regulatory Authority (FINRA). JMP Securities operates as an introducing broker and does not hold funds or securities for, or owe any money or securities to, customers and does not carry accounts for customers. All customer transactions are cleared through another broker-dealer on a fully disclosed basis. JMP Securities provides equity research, sales and trading to institutional brokerage clients and capital raising and strategic advisory services to corporate clients. As of December 31, 2010, JMP Securities had 172 full-time employees, including 41 in equity research, 50 in sales and trading, 47 in investment banking and 34 in operations and administration.

HCS is a registered investment advisor under the Investment Advisers Act of 1940, as amended, and provides investment management services for sophisticated investors through investment partnerships and other entities managed by HCS. During the fiscal year ended December 31, 2010, HCS actively managed a family of six hedge funds, one hedge fund of funds, one private equity fund and one externally advised REIT. As of December 31, 2010, HCS had 28 full-time employees.

Effective April 7, 2009, through our wholly-owned subsidiary JMP Credit Corporation (JMP Credit), we 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 (CLOs), together with certain securities of Cratos CLO I, Ltd. (Cratos CLO). During the fiscal year ended December 31, 2010, JMP Credit Advisors actively managed two CLOs including Cratos CLO. As of December 31, 2010, JMP Credit Advisors had 15 full-time employees.

Investment Banking

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

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

Corporate Finance

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

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

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Mergers and Acquisitions and Other Strategic Advisory

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

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

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

Sales and Trading

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

We have established a broad institutional client base rooted in longstanding relationships, which have been developed through a consistent focus on the investment and trading objectives of our clients. Our sales and trading professionals work closely with our equity research staff to provide insight and differentiated investment advice to approximately 544 institutional clients nationwide.

We believe that our sales and trading clients turn to us for timely, informed investment advice. Our equity research features proprietary themes and actionable ideas about industries and companies that are not widely evaluated by many other research providers. In recent years, many investment banks have reduced their equity research coverage and market-making activities dedicated to companies with market capitalizations below certain thresholds. Additionally, with the recent failure or consolidation of several very large investment banking firms, the amount of market-making activity, liquidity and research coverage provided by broker-dealers for smaller stocks has significantly decreased. However, we continue to commit sales and trading resources to smaller-capitalization companies with the belief that institutional investors require and value such specialized knowledge and service.

Our sales and trading personnel are also central to our ability to market equity offerings and provide after-market support. Our capital markets group manages the syndication, marketing, execution and distribution of the security offerings we manage. Our syndicate activities include coordinating the marketing and order-taking process for underwritten transactions and conducting after-market stabilization and initial market-making. Our syndicate staff is also responsible for developing and maintaining relationships with the syndicate departments of other investment banks.

Equity Research

Our research department is charged with developing proprietary investment themes, anticipating sector and cyclical changes, and producing action-oriented reports that will assist our clients with their investment decisions. Our analysts cultivate primary sources of information in order to refine their quantitative and qualitative assessments. Our objective is to provide clients with a clear understanding of industry-specific and company-specific issues that can impact their portfolio returns.

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

Financial Services	Healthcare	Real Estate
Commercial Banks	Biotechnology	Housing
Consumer Finance	Healthcare Facilities	Housing Supply Chain
Financial Processing and Outsourcing	Healthcare IT	Land Development
Investment Banks & Brokers	Healthcare Services	Lodging
Market Structure	Medical Devices	Property Services
Mortgage Finance		Real Estate Technology
Specialty Finance		Real Estate Investment Trusts (REITs)
Specialty Insurance		
Technology	**Consumer**	
Clean Technology	Hardline Retail	
Communications Equipment		

IT Hardware

Semiconductors

Software

As of December 31, 2010, our research department included 24 publishing research analysts providing investment recommendations on 317 public companies. Approximately 42% of the stocks under coverage had market capitalizations of less than $1.0 billion and were divided among our target sectors as follows:

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While many larger firms have restructured their research departments due to economic and regulatory pressures and have significantly reduced coverage of companies below certain market-capitalization thresholds, we continue to devote the majority of our resources to smaller-capitalization companies. The number of investment funds and the total assets under management committed to small-cap and mid-cap stocks has grown considerably during the last decade. However, managers of these funds are now presented with ever fewer sources of independent investment research. We continue to provide objective investment recommendations on small and middle-market companies, and we believe that our institutional investor clients depend on us for this informed, fundamental research.

Asset Management

Through HCS, during 2010 we actively managed a family of six hedge funds, one hedge fund of funds, one private equity fund and one externally advised REIT. As of December 31, 2010, we had a total of $516.9 million in client assets under management (including assets of employees and portfolio managers) and had an additional $24.6 million of our own capital invested in these vehicles. In addition, as of December 31, 2010 we had invested $3.1 million in funds managed by third parties.

In January 2008, we and certain affiliated entities completed the acquisition of 1.0 million shares of Series A Cumulative Redeemable Convertible preferred stock of New York Mortgage Trust, Inc. (NYMT), a publicly traded real estate investment trust (REIT) engaged in the investment management of mortgage-backed securities and high credit quality residential adjustable rate mortgage loans, at a price per share of $20.00, for a total of $20.0 million. The investment was comprised of $5.0 million from JMP Group Inc., $5.0 million from certain funds managed by HCS, and $10.0 million from JMP Realty Trust (JMPRT), which was an affiliated REIT managed by HCS. In February 2008, JMP Group Inc. purchased NYMT common stock for an aggregate amount of $4.5 million in a $60.0 million private investment in public equity (PIPE) transaction executed by NYMT. We subsequently entered into an advisory agreement between HCS and NYMT to manage certain non-agency assets. The advisory agreement was terminated effective July 26, 2010 upon execution of an amended and restated advisory agreement between HCS and NYMT. Under the amended advisory agreement, HCS manages certain assets of NYMT, which are subject to the base advisory fee and incentive fee calculations, and receives an annual consulting fee equal to $1.0 million. On December 31, 2010, all of the 1.0 million shares of Series A Cumulative Redeemable Convertible preferred stock of NYMT owned by JMP Group Inc. and certain of its affiliates were redeemed at a price per share of $20.00 for a total of $20.0 million. Under the amended advisory agreement, we have a minimum $10.0 million of investment commitment in NYMT s common stock, subject to certain adjustments for variations in NYMT s stock price subsequent to the effective date of the agreement. At December 31, 2010, we had an investment in NYMT s common stock of $10.0 million which represented 15.3% of NYMT s outstanding shares of common stock.

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

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

Corporate Credit

JMP Credit Advisors serves as the investment manager to Cratos CLO which had a diversified portfolio of 182 corporate loans with an aggregate par amount of $453.4 million and restricted cash available to lend of $20.1 million as of December 31, 2010. In addition, during 2010, JMP Credit Advisors purchased for $3.8 million the management contract of another CLO which had a diversified portfolio of 177 corporate loans with an aggregate par amount of $275.3 million and restricted cash available to lend of $8.4 million as of December 31, 2010. For the year ended December 31, 2010, JMP Credit Advisors earned management fees of $2.4 million or 50 bps annualized on gross assets under management from Cratos CLO and $0.5 million or 40 bps annualized on gross assets under management from the purchased CLO management contract. As we consolidate Cratos CLO, in accordance with U.S. Generally Accepted Accounting Principles (GAAP), the management fees earned from it are eliminated on consolidation.

Industry Concentration in Financial Services and Real Estate Sectors

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

Before we undertook our diversification efforts, our investment banking business generated 100% of its revenues from the financial services and real estate sectors. In 2010, however, 45.0% of investment banking revenues were derived from the financial services and real estate sectors. Our additional focus on healthcare and technology sectors has counterbalanced our efforts in our original industry groups. In addition to broadening our industry concentration, we have worked in recent years to expand our investment banking product offerings so that we are not solely dependent on the public capital markets for our business opportunities. In 2010, we derived 51.0% of investment banking revenues from sources other than the public capital markets, including M&A and strategic advisory fees and private capital raising fees.

Competition

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

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

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

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

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

Net interest income from our corporate credit business depends, in large part, on our ability to acquire loans with yields that exceed our borrowing costs. A number of entities compete with us to make the types of investments which we make. We compete with other CLO managers, business development companies, public and private funds, commercial and investment banks and commercial finance companies. Some competing entities have recently raised, or are expected to raise, significant amounts of capital, and may have investment objectives that overlap with ours, which may create competition for investment opportunities. Some competitors may have a lower cost of funds than us and access to financing sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than us.

Employees

As of December 31, 2010, we had 215 employees, including 73 managing directors. We believe that our managing directors and other professionals have been attracted to our firm because of our entrepreneurial culture, our focused industry coverage and our dedication to providing growth companies and growth investors with exceptional client service, objective advice and innovative solutions. None of our employees are subject to any collective bargaining agreements, and we believe our relationship with our employees to be satisfactory.

Risk Management and Compliance

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

Regulation

As a participant in the financial services industry, we are subject to complex and extensive regulation of most aspects of our business by U.S. Federal and state regulatory agencies, self-regulatory organizations and securities exchanges. The laws, rules and regulations comprising the regulatory framework are constantly

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changing, as are the interpretation and enforcement of existing laws, rules and regulations. The effect of any such changes cannot be predicted and may direct the manner of our operations and affect our profitability.

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

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

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

We are also subject to the USA PATRIOT Act of 2001, which imposes obligations regarding the prevention and detection of money-laundering activities, including the establishment of customer due diligence and customer verification, and other compliance policies and procedures. The conduct of research analysts is also the subject of rule-making by the SEC, the FINRA and the federal government through the Sarbanes-Oxley Act. These regulations require certain disclosures by, and restrict the activities of, research analysts and broker-dealers, among others. Failure to comply with these requirements may result in monetary, regulatory and, in the case of the USA PATRIOT Act, criminal penalties.

Our asset management subsidiary, HCS, is an SEC-registered investment adviser, and accordingly subject to regulation by the SEC. Requirements under the Investment Advisors Act of 1940 include record-keeping, advertising and operating requirements, and prohibitions on fraudulent activities.

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

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

In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was enacted. The Dodd-Frank Act institutes a wide range of reforms that will impact financial services firms and requires significant rule-making. In addition, the legislation mandates multiple studies, which could result in additional legislative or regulatory action. Many of the provisions of the Dodd-Frank Act are subject to further rulemaking procedures and studies and will take effect over several years. As a result, we cannot assess the impact of these new legislative and regulatory changes on our business at the present time.

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Accounting, Administration and Operations

Our accounting, administration and operations personnel are responsible for financial controls, internal and external financial reporting, compliance with regulatory and legal requirements, office and personnel services, management information and telecommunications systems and the processing of our securities transactions. We use a third-party service provider for payroll processing and servicing of asset-backed securities issued, and our clearing operations are currently performed by Penson Financial Services Inc. (formally Ridge Clearing & Outsourcing Solutions, Inc. which was acquired by Penson Worldwide, Inc. on June 28, 2010). Effective February 23, 2011, we changed our clearing broker from Penson Financial Services Inc. to J.P. Morgan Clearing Corp. All of our data processing functions are performed by our management information systems personnel. We believe that our continued future growth will require implementation of new and enhanced communications and information systems and training of our personnel or the hiring of an outsourced provider to operate such systems. Any difficulty or significant delay in the implementation or operation of new systems or the training of personnel could harm our ability to manage growth.

Available Information

JMP Group Inc. is required to file current, annual and quarterly reports, proxy statements and other information required by the Exchange Act 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 to shareholders in print form upon request (i) its corporate governance guidelines, (ii) its code of business conduct and ethics, and (iii) the charters of the audit, compensation, and corporate governance and nominating committees of its board of directors. These documents, as well as the information on the website of JMP Group Inc., are not intended to be part of this annual report.

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Item 1A. Risk Factors
Risks Related to Our Business

Difficult conditions in the global financial markets have negatively impacted and may continue to negatively impact our ability to generate business and revenues and may cause significant fluctuations in our stock price.

All of our businesses have been in the past and may in the future be materially affected by conditions in the financial market and general economic conditions, such as the level and volatility of interest rates, investor sentiment, the availability and the cost of credit, the U.S. mortgage market, the U.S. real estate market, volatile energy prices, consumer confidence, unemployment, and geopolitical issues. Financial markets have experienced extreme volatility and disruption since mid-2007. In particular, during the fourth quarter of 2008, market volatility and disruption reached unprecedented levels. While financial markets have become more stable and have generally improved since 2009, there remains a significant amount of uncertainty about a global economic recovery.

Weakness or disruption in equity markets and diminished trading volume of securities have adversely impacted our sales and trading business in the past and could continue to do so in the future. Industry-wide declines in the size and number of underwritings and mergers and acquisitions transactions have also had an adverse effect on our revenues. Reductions in the trading prices for equity securities tend to reduce the transaction value of investment banking transactions, such as underwriting and mergers and acquisitions transactions, which in turn may reduce the fees we earn from these transactions. Although our investment banking business improved in 2010 due to increased activity by businesses in capital raising transactions, current market conditions may not continue to improve and could worsen. Market conditions may also affect the level and volatility of securities prices and the liquidity and value of investments in our funds and managed accounts, and we may not be able to manage our investment management business s exposure to these market conditions. In addition to these factors, deterioration in the financial markets or economic conditions in the United States and elsewhere in the world could materially affect our business in other ways, including the following:

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

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

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

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

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

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

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

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

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

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As an introducing broker to clearing firms, we are responsible to the clearing firm and could be held liable for the defaults of our customers, including losses incurred as the result of a customer s failure to meet a margin call. Although we review credit exposure to specific customers, default risk may arise from events or circumstances that are difficult to detect or foresee. When we allow customers to purchase securities on margin, we are subject to risks inherent in extending credit. This risk increases when a market is rapidly declining and the value of the collateral held falls below the amount of a customer s indebtedness. If a customer s account is liquidated as the result of a margin call, we are liable to our clearing firm for any deficiency.

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

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

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

Our industry could face increased regulation as a result of legislative or regulatory initiatives. Compliance with such regulation may increase our costs and limit our ability to pursue business opportunities.

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

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

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

We focus principally on five target industries: consumer, financial services, healthcare, real estate, and technology. Volatility in the business environment in these industries or in the market for securities of companies within these industries could adversely affect our financial results and the market value of our common stock. The business environment for companies in some of these industries has been subject to high levels of volatility in recent years, and our financial results have consequently been subject to significant variations from year to year. Over the last six years, the mix of our investment banking revenues has shifted from over 70% combined in financial services and real estate (slightly weighted in favor of the real estate sector) to 45% of total investment banking revenues in financial services and real estate in 2010. The healthcare sector has risen to 31% of total investment banking revenues in 2010 with the remaining 24% derived from the technology sector. The market for securities in each of our target industries may also be subject to industry-specific risks. For example, we have research, investment banking and principal investments focused in the areas of financial services, real estate and mortgage-related securities. These sectors have been impacted negatively by disruption in the financial markets and downturn in the general economy and the real estate market. Since 2008, a number of banks and securities firms in the United States and elsewhere have failed or have been acquired by other financial institutions, often in distressed sales. In addition, declines in the housing market, with falling home prices and increasing foreclosures, have adversely affected the credit performance of mortgage loans and have resulted in material write downs of asset values by financial institutions.

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

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

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

Our people are our most valuable resource. Our ability to obtain and successfully execute the transactions that generate a significant portion of our revenues depends upon the reputation, judgment, business generation capabilities and project execution skills of our senior professionals, particularly our managing directors and the members of our executive committee. The reputations and relationships of our senior professionals with our clients are a critical element in obtaining and executing client engagements. Turnover in the investment banking industry is high and we encounter intense competition for qualified employees from other companies in the investment banking industry as well as from businesses outside the investment banking business, such as hedge funds and private equity funds. To the extent we continue to have annual compensation and benefits expense targets, we may not be able to retain our professionals or recruit additional professionals at compensation levels that are within our target range for compensation and benefits expense. If we were to lose the services of any of our investment bankers, senior equity research, sales and trading professionals, asset managers, or executive officers to a new or existing competitor or otherwise, we may not be able to retain valuable relationships and some of our clients could choose to use the services of a competitor instead of our services. If we are unable to retain our senior professionals or recruit additional professionals, our reputation, business, results of operations and financial condition will be adversely affected. Further, new business initiatives and efforts to expand existing businesses generally require that we incur compensation and benefits expense before generating additional revenues.

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

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

We are a relatively small investment bank with 172 employees as of December 31, 2010. Many of our competitors have a broader range of products and services, greater financial and marketing resources, larger customer bases, greater name recognition, more senior professionals to serve their clients needs, greater global reach and more established relationships with clients than we have. These larger and better capitalized competitors may be better able to respond to changes in the investment banking industry, compete for skilled professionals, finance acquisitions, fund internal growth and compete for market share generally. These firms have the ability to support investment banking with commercial banking, insurance and other financial services in an effort to gain market share, which has resulted, and could further result, in pricing pressure in our businesses. In particular, the ability to provide commercial financing has become an important advantage for some of our larger competitors and, because we do not provide such financing, we may be unable to compete as effectively for clients in a significant part of the investment banking industry. In addition, if the number of capital

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markets and financial advisory transactions continues to decline in response to current economic conditions, larger investment banking firms may seek to enter into engagements with smaller companies and for smaller transactions that traditionally would have been considered too small for these firms.

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

We face strong competition from middle-market investment banks.

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

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

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

- changes in book value due to principal investment valuations;
- actual or anticipated fluctuations in our financial condition or results of operations;
- failure to meet the expectations of securities analysts;
- a decline in the stock prices of peer companies;
- a discount in the trading multiple of our common stock relative to that of common stock of certain of our peer companies due to perceived risks associated with our smaller size;
- the success or failure of potential acquisitions, our operating strategies and our perceived prospects and those of the financial services industry in general;
- the realization of any of the other risks described in this section;
- sales of substantial amounts of our common stock by our employees or other stockholders, or the possibility of such sales; and
- changes in our dividend policy.

We currently have on file with the SEC an effective universal shelf registration statement on Form S-3, which enables us to sell, from time to time, our common stock and other securities covered by the registration statement in one or more public offerings. Sales of substantial amounts of our common stock or other securities covered by the registration statement may adversely affect the price of our common stock. Declines in the price of our common stock may adversely affect our ability to recruit and retain key employees, including our managing directors and other key professional employees. In addition, we may not be able to access the capital markets for future principal transactions.

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

We have experienced, and expect to experience in the future, significant variations from period to period in our revenues and results of operations from investment banking activities. Future variations in investment banking revenues may be attributable in part to the fact that our investment banking revenues are typically earned upon the successful completion of a transaction, the timing of which is uncertain and beyond our control. In most cases, we receive little or no payment for investment banking engagements that do not result in the successful completion of a transaction. As a result, our business is highly dependent on market conditions as well as the

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decisions and actions of our clients and interested third parties. For example, a client s acquisition transaction may be delayed or terminated because of a failure to agree upon final terms with the counterparty, failure to obtain necessary regulatory consents or board or stockholder approvals, failure to secure necessary financing, adverse market conditions or unexpected financial or other problems in the business of a client or a counterparty. If the parties fail to complete a transaction on which we are advising or an offering in which we are participating, we will earn little or no revenue from the contemplated transaction. In addition, we pay significant expenses related to a contemplated transaction regardless of whether or not the contemplated transaction generates revenues. This risk may be intensified by our focus on growth companies in the consumer, financial services, healthcare, real estate and technology industries, as the market for securities of these companies has experienced significant variations in the number and size of equity offerings. In addition, our investment banking revenues are highly dependent on the level of mergers and acquisition and capital raising activity in the U.S. which fluctuates substantially from period to period. According to data from Dealogic, a provider of global investment banking analysis and systems, the number of mergers and acquisition transactions in the U.S. varied from approximately 6,600 in 2008 ($501.0 billion in deal value) to 5,000 in 2009 ($373.0 billion in deal value) and approximately 5,600 in 2010 ($427.3 billion in deal value). The number of capital raising transactions varied from 306 in 2008 (raising $179.4 billion) to 702 in 2009 (raising $201.2 billion) and 772 in 2010 (raising $166.1 billion). Our investment banking revenues would be adversely affected in the event that the number and size of mergers and acquisitions and capital raising transactions decline. As a result, we may not achieve steady and predictable earnings on a quarterly basis, which could in turn adversely affect our stock price.

Further, because a significant portion of our revenue is derived from investment banking fees and commissions, severe market fluctuations, weak economic conditions, a decline in stock prices, trading volumes or liquidity could cause our financial results to fluctuate from period to period as a result of the following, among other things:

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

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

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

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

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

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

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

We derive a significant portion of our revenues from our sales and trading business, which accounted for 20%, 23% and 49% of our net revenues for the years ended December 31, 2010, 2009 and 2008, respectively. Along with other investment banking firms, we have experienced intense price competition and trading volume reduction in this business in recent years. In particular, the ability to execute trades electronically and through alternative trading systems has increased the downward pressure on trading commissions and spreads. We expect this trend toward alternative trading systems and downward pricing pressure in the business to continue. We believe we may experience competitive pressures in these and other areas in the future as some of our competitors seek to obtain market share by competing on the basis of price or by using their own capital to facilitate client trading activities. In addition, we face pressure from our larger competitors, which may be better able to offer a broader range of complementary products and services to clients in order to win their trading business. As we are committed to maintaining and improving our comprehensive research coverage in our target sectors to support our sales and trading business, we may be required to make substantial investments in our research capabilities to remain competitive. If we are unable to compete effectively in these areas, the revenues of our sales and trading business may decline, and our business, results of operations and financial condition may be harmed.

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

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

There is a trend toward larger and more frequent commitments of capital by financial services firms in many of their activities. For example, in order to win business, investment banks are increasingly committing to purchase large blocks of stock from publicly traded issuers or significant stockholders, instead of the more traditional marketed underwriting process in which marketing is typically completed before an investment bank commits to purchase securities for resale. We may participate in this trend and, as a result, we may be subject to increased risk. Conversely, if we do not have sufficient regulatory capital to so participate, our business may suffer. Furthermore, we may suffer losses as a result of the positions taken in these transactions even when economic and market conditions are generally favorable for others in the industry.

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

The asset management business is intensely competitive.

Over the past several years, the size and number of asset management funds, including hedge funds and private equity funds, has continued to increase. If this trend continues, it is possible that it will become increasingly difficult for our funds to raise capital. More significantly, the allocation of increasing amounts of capital to alternative investment strategies by institutional and individual investors leads to a reduction in the size and duration of pricing inefficiencies. Many alternative investment strategies seek to exploit these inefficiencies and, in certain industries, this drives prices for investments higher, in either case increasing the difficulty of achieving targeted returns. In addition, if interest rates were to rise or there were to be a prolonged bull market in equities, the attractiveness of our funds relative to investments in other investment products could decrease. Competition is based on a variety of factors, including:

- investment performance;
- investor perception of the drive, focus and alignment of interest of an investment manager;
- quality of service provided to and duration of relationship with investors;
- business reputation; and
- level of fees and expenses charged for services.

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

- investors may develop concerns that we will allow a fund to grow to the detriment of its performance;
- some of our competitors have greater capital, lower targeted returns or greater sector or investment strategy specific expertise than we do, which creates competitive disadvantages with respect to investment opportunities;
- some of our competitors may perceive risk differently than we do which could allow them either to outbid us for investments in particular sectors or, generally, to consider a wider variety of investments;
- there are relatively few barriers to entry impeding new asset management firms, and the successful efforts of new entrants into our various lines of business, including former star portfolio managers at large diversified financial institutions as well as such institutions themselves, will continue to result in increased competition; and
- other industry participants in the asset management business continuously seek to recruit our best and brightest investment professionals away from us.

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

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

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

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

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

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

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

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

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

The recent crisis in the global credit markets has adversely affected and may continue to adversely affect our CLO investments.

The global economy has been affected by a crisis in the credit markets and has experienced a general downturn. Among the sectors particularly challenged by the current crisis in the global credit markets are the CLO and leveraged finance markets. In 2008 and through early 2009, liquidity in the credit markets was significantly reduced, resulting in an increase in credit spreads and a decline in ratings, performance and market values for leveraged loans. Although the credit markets in general and the leveraged loan market in particular have improved since the second half of 2009, they have not returned to pre-2008 levels. We have significant exposure to these markets through our investments in Cratos CLO I, Ltd. (Cratos CLO) that issued notes to investors secured by a pool of corporate loans. We invested in deeply subordinated securities issued by Cratos CLO, representing highly leveraged investments in the underlying collateral, which increases both the opportunity for higher returns as well as the magnitude of losses when compared to the other investors that rank more senior to us in right of payment. As a result of our subordinated position in Cratos CLO, we and our investors are at greater risk of suffering losses.

The CLO market in which we invest has experienced an increase in downgrades, defaults and declines in market value and defaults in respect of leveraged loans in their collateral. The CLO has to comply with certain

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asset coverage tests, such as the amount of discounted obligations and CCC rating agency classified obligations it can hold. During any time the CLO exceeds such a limit, our ability as the CLO manager, to sell assets and reinvest available principal proceeds into substitute assets is restricted. In addition, defaulted obligations, discounted assets (those purchased below 85% of their par value) and assets rated CCC or lower in excess of applicable limits in the CLO s investment criteria are not given full par credit for purposes of calculation of the CLO overcollateralization (OC) tests. As a result, many CLOs are failing or may in the future fail one or more of their overcollateralization tests. If this were to occur for Cratos CLO, it could cause a diversion of cash flows away from us as holders of the subordinated CLO securities in favor of investors more senior than us in right of repayment, until the relevant overcollateralization tests are satisfied. Cratos CLO was in compliance with all OC tests on the quarterly determination dates in November, August and May 2010 but was in violation of the most junior OC test on the quarterly determination date of February 2010. As a result, for the February period, Cratos CLO was required to use substantially all of the residual cash flows to buy additional collateral or to pay down the most senior note holders rather than distribute the money to us as owners of the subordinated notes. If Cratos CLO were to violate the most junior OC test, or any more senior tests, in the future, we would see a diversion of cash flows away from us until the violation is cured. In the most extreme case, if the CLO were in violation of the most senior OC test, the most senior note holders would have the ability to declare an event of default and cause an acceleration of all principal and interest outstanding on the notes. In addition, it is possible that the CLO s collateral will be depleted before we realize a return on our CLO investments.

The ability of the CLO to make interest payments to the holders of its senior notes is highly dependent upon the performance of the CLO collateral. If the collateral was to experience a significant decrease in cash flow due to an increased default level, the CLO may be unable to pay interest to the holders of the senior notes which would allow such holders to declare an event of default under the indenture governing the transaction and accelerate all principal and interest outstanding on the senior notes.

There can be no assurance that market conditions giving rise to these types of consequences will not occur, subsist or become more acute in the future.

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

We use a portion of our own capital in a variety of principal investment activities, each of which involves risks of illiquidity, loss of principal and revaluation of assets. At December 31, 2010, our gross principal investments included $38.7 million invested in other investments, of which $23.7 million was related to our family of funds, $0.5 million to equity securities of a private company and $3.1 million to funds managed by third-parties. We also had $23.7 million invested in marketable securities in long positions, which includes our investments in NYMT common stock of $10.0 million, and $10.7 million invested through short positions on marketable securities. In addition, we have investments in private companies through loans and lines of credit, which as of December 31, 2010, are carried at $0.8 million net of reserves for credit losses. The companies in which we invest may rely on new or developing technologies or novel business models, or concentrate on markets which are or may be disproportionately impacted by pressures in the financial services and/or mortgage and real estate sectors, have not yet developed and which may never develop sufficiently to support successful operations, or their existing business operations may deteriorate or may not expand or perform as projected. As a result, we have suffered losses in the past and we may suffer losses from our principal investment activities in the future.

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

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

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We may use our capital, including on a leveraged basis in principal investments in both private company and public company securities that may be illiquid and volatile. The equity securities of a privately-held entity in which we make a principal investment are likely to be restricted as to resale and may otherwise be highly illiquid, potentially permanently so in the case of fund or similar investments. We expect that there will be restrictions on our ability to resell the securities of any such company that we acquire for a period of at least six months after we acquire those securities. Thereafter, a public market sale may be subject to volume limitations or dependent upon securing a registration statement for an initial and potentially secondary public offering of the securities. We may make principal investments that are significant relative to the overall capitalization of the investee company and resales of significant amounts of these securities might be subject to significant limitations and adversely affect the market and the sales price for the securities in which we invest. In addition, our principal investments may involve entities or businesses with capital structures that have significant leverage. The large amount of borrowing in the leveraged capital structure increases the risk of losses due to factors such as rising interest rates, downturns in the economy or deteriorations in the condition of the investment or its industry. In the event of defaults under borrowings, the assets being financed would be at risk of foreclosure, and we could lose our entire investment.

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

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

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

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

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

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

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

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

Widening credit spreads, as well as significant declines in the availability of credit, could adversely affect our ability to borrow on an unsecured basis. Disruptions in the credit markets could make it harder and more expensive to obtain funding for our businesses. If our available funding is limited or we are forced to fund our operations at a higher cost, these conditions may require us to curtail our business activities and increase our cost of funding, both of which could reduce our profitability, particularly in our businesses that involve investing and taking principal positions.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our operations also rely on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. Although we take protective measures and endeavor to modify them as circumstances warrant, our computer systems, software and networks may be vulnerable to unauthorized access, computer viruses or other malicious code and other events that could have a security impact. If one or more of such events occur, this could jeopardize our or our clients or counterparties

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confidential and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our, our clients , our counterparties or third parties operations. We may be required to expend significant additional resources to modify our protective measures, to investigate and remediate vulnerabilities or other exposures or to make required notifications, and we may be subject to litigation and financial losses that are either not insured or not fully covered through any insurance maintained by us.

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

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

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

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

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

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

- problems with the effective integration of operations;
- the inability to maintain key pre-acquisition business relationships and integrate new relationships;
- increased operating costs;
- exposure to unanticipated liabilities;
- risks of misconduct by employees not subject to our control;
- difficulties in realizing projected efficiencies, synergies and cost savings; and
- exposure to new or unknown liabilities.

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

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

As discussed further in Item 8. Note 2 to our consolidated financial statements, in January 2008, we and certain affiliated entities completed the acquisition of 1.0 million shares of Series A Cumulative Redeemable Convertible preferred stock of New York Mortgage Trust, Inc. (NYMT), a publicly traded real estate investment trust (REIT) engaged in the investment management of mortgage-backed securities and high credit quality residential adjustable rate mortgage loans, at a price per share of $20.00, for a total of $20.0 million. The investment was comprised of $5.0 million from JMP Group Inc., $5.0 million from certain funds managed by HCS, and $10.0 million from JMP Realty Trust (JMPRT), which was an affiliated REIT managed by HCS. In February 2008, JMP Group Inc. purchased NYMT common stock for an aggregate amount of $4.5 million in a $60.0 million private investment in public equity (PIPE) transaction executed by NYMT. We subsequently entered into an advisory agreement between HCS and NYMT to manage certain non-agency assets. The advisory agreement was terminated effective July 26, 2010 upon execution of an amended and restated advisory agreement between HCS and NYMT. Under the amended advisory agreement, HCS manages certain assets of NYMT, which are subject to the base advisory fee and incentive fee calculations, and receives an annual consulting fee equal to $1.0 million. On December 31, 2010, all of the 1.0 million shares of Series A Cumulative Redeemable Convertible preferred stock of NYMT owned by JMP Group Inc. and certain of its affiliates were redeemed at a price per share of $20.00 for a total of $20.0 million. Under the amended advisory agreement, we have a minimum $10.0 million of investment commitment in NYMT s common stock, subject to certain adjustments for variations in NYMT s stock price subsequent to the effective date of the agreement. At December 31, 2010, we had an investment in NYMT s common stock of $10.0 million which represented 15.3% of NYMT s outstanding shares of common stock.

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

Difficult conditions in the mortgage and residential real estate markets have caused and may cause NYMT to experience losses and these conditions may persist for the foreseeable future.

NYMT s business is materially affected by conditions in the residential mortgage market, the residential real estate market, the financial markets and the economy generally. In addition, NYMT expects that as it acquires commercial mortgage-related assets in the future, its business will be increasingly affected by conditions in the commercial mortgage market and the commercial real estate market. Furthermore, NYMT believes the risks associated with its investments will be more acute during periods of economic slowdown or recession, especially if these periods are accompanied by declining real estate values. Concerns about the residential and commercial mortgage markets and a declining real estate market generally, as well as inflation, energy costs, geopolitical issues and the availability and cost of credit have contributed to increased volatility and diminished expectations for the economy and markets going forward. The residential and commercial mortgage markets have been adversely affected by changes in the lending landscape, the severity of which was largely unanticipated by the markets. There is no assurance that these markets have stabilized or that they will not worsen.

In addition, a continued economic slowdown or delayed recovery may result in continued decreased demand for residential and commercial property, which would likely further compress homeownership rates and place additional pressure on home price performance, while forcing commercial property owners to lower rents on properties with excess supply. NYMT believes there is a strong correlation between home price growth rates and mortgage loan delinquencies. Moreover, to the extent that a property owner has fewer tenants or receives lower rents, such property owners will generate less cash flow on their properties, which increases significantly the likelihood that such property owners will default on their debt service obligations. If the borrowers of NYMT s mortgage loans, or the loans underlying certain of NYMT s investment securities, default, NYMT may incur losses on those loans or investment securities. Any sustained period of increased payment delinquencies, foreclosures or losses could adversely affect both NYMT s net interest income and NYMT s ability to acquire its targeted assets in the future on favorable terms or at all. The further deterioration of the residential or commercial

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mortgage markets, the residential or commercial real estate markets, the financial markets and the economy generally may result in a decline in the market value of its investments or cause NYMT to experience losses related to its assets, which may adversely affect its results of operations, the availability and cost of credit and its ability to make distributions to its stockholders.

NYMT may change its investment strategy, hedging strategy and asset allocation and operational and management policies without stockholder consent, which may result in the purchase of riskier assets and materially adversely affect its business, financial condition and results of operations and its ability to make distributions to its stockholders.

NYMT may change its investment strategy, hedging strategy and asset allocation and operational and management policies at any time without the consent of its stockholders, which could result in NYMT purchasing assets or entering into hedging transactions that are different from, and possibly riskier than, the assets and hedging transactions described in its annual report on Form 10-K. A change in its investment strategy or hedging strategy may increase NYMT s exposure to real estate values, interest rates and other factors. A change in its asset allocation could result in NYMT purchasing assets in classes different from those described in this report. NYMT s board of directors determines NYMT s operational policies and may amend or revise NYMT s policies, including those with respect to its acquisitions, growth, operations, indebtedness, capitalization and distributions or approve transactions that deviate from these policies without a vote of, or notice to, its shareholders. In addition, certain of NYMT s external managers have great latitude in making investment and hedging decisions on NYMT s behalf. Changes in NYMT s investment strategy, hedging strategy and asset allocation and operational and management policies could materially adversely affect NYMT s business, financial condition and results of operations and ability to make distributions to its stockholders.

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

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

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

Changes in laws and regulations affecting the relationship between Fannie Mae and Freddie Mac and the U.S. government, may adversely affect NYMT s business.

Payments on the Agency RMBS in which NYMT invests are guaranteed by Fannie Mae and Freddie Mac. As broadly publicized, Fannie Mae and Freddie Mac have experienced significant losses in recent years, causing

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the U.S. Government to place Fannie Mae and Freddie Mac under federal conservatorship and to inject significant capital in these businesses. Questions regarding the continued viability of Fannie Mae and Freddie Mac, as currently structured, including the guarantees that back the RMBS issued by them, and the U.S. Government s participation in the U.S. residential mortgage market through the GSEs, continue to persist. In February 2011, the U.S. Department of the Treasury along with the U.S. Department Housing and Urban Development released a much-awaited report titled Reforming America s Housing Finance Market , which outlines recommendations for reforming the U.S. housing system, specifically the roles of Fannie Mae and Freddie Mac and transforming the government s involvement in the housing market and its relationship to Fannie Mae and Freddie Mac. It is unclear how future legislation may impact the housing finance market and the investing environment for mortgage-related securities and more specifically, Agency RMBS and non-Agency RMBS, as the method of reform is undecided and has not yet been defined by the regulators. New regulations and programs related to Fannie Mae and Freddie Mac, including those affecting the relationship between the GSEs and the U.S. Government, may adversely affect the pricing, supply, liquidity and value of RMBS and otherwise materially harm its business and operations.

NYMT s income could be negatively affected in a number of ways depending on the manner in which events related to Fannie Mae and Freddie Mac unfold. For example, the current credit support provided by the U.S. to Fannie Mae and Freddie Mac, and any additional credit support it may provide in the future, could have the effect of lowering the interest rates we expect to receive from Agency RMBS, thereby tightening the spread between the interest NYMT earns on those assets and its cost of financing those assets. A reduction in the supply of Agency RMBS could also negatively affect the pricing of RMBS by reducing the spread between the interest NYMT earns on its RMBS and its cost of financing those assets. In addition, any law affecting these government-sponsored enterprises may create market uncertainty and have the effect of reducing the actual or perceived credit quality of securities issued or guaranteed by Fannie Mae or Freddie Mac. As a result, such laws could increase the risk of loss on investments in Fannie Mae and/or Freddie Mac Agency RMBS.

Mortgage loan modification programs and future legislative action may adversely affect the value of, and the returns, on the interest-earning assets in which NYMT invests.

In late 2008, the U.S. government, through the Federal Housing Authority and the Federal Deposit Insurance Corporation, or FDIC, commenced implementation of programs designed to provide homeowners with assistance in avoiding residential mortgage loan foreclosures. The programs involve, among other things, modifications of mortgage loans to reduce the principal amount of the loans or the rate of interest payable on the loans, or to extend the payment terms of the loans. In addition, members of the U.S. Congress have indicated support for additional legislative relief for homeowners, including an amendment of the bankruptcy laws to permit the modification of mortgage loans in bankruptcy proceedings. These loan modification programs, as well as future legislative or regulatory actions, including amendments to the bankruptcy laws, that result in the modification of outstanding mortgage loans may as well as changes in the requirements necessary to qualify for refinancing a mortgage with Fannie Mae, Freddie Mac or Ginnie Mae adversely affect the value of, and the returns on, the interest-earning assets in which NYMT invests, including through prepayments on the mortgage loans underlying its RMBS and other mortgage-related securities and loans, including mortgage loans held in its securitization trusts.

Loan delinquencies on its prime ARM loans held in securitization trusts may increase as a result of significantly increased monthly payments required from ARM borrowers after the initial fixed period.

The scheduled increase in monthly payments on certain adjustable rate mortgage loans held in its securitization trusts may result in higher delinquency rates on those mortgage loans and could have a material adverse affect on its net income and results of operations. This increase in borrowers monthly payments, together with any increase in prevailing market interest rates, may result in significantly increased monthly payments for borrowers with adjustable rate mortgage loans. Borrowers seeking to avoid these increased monthly payments by refinancing their mortgage loans may no longer be able to fund available replacement loans at

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comparably low interest rates or at all. A decline in housing prices may also leave borrowers with insufficient equity in their homes to permit them to refinance their loans or sell their homes. In addition, these mortgage loans may have prepayment premiums that inhibit refinancing.

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

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

NYMT may invest in high yield or subordinated and lower rated securities that have greater risks of loss than other investments, which could adversely affect its business, financial condition and cash available for dividends.

NYMT may invest in high yield or subordinated or lower rated securities, including subordinated tranches of CMBS and non-Agency RMBS, which involve a higher degree of risk than other investments. Numerous factors may affect a company s ability to repay its high yield or subordinated securities, including the failure to meet its business plan, a downturn in its industry or negative economic conditions. These securities may not be secured by mortgages or liens on assets. Its right to payment and security interest with respect to such securities may be subordinated to the payment rights and security interests of the senior lender. Therefore, NYMT may be limited in its ability to enforce its rights to collect these loans and to recover any of the loan balance through a foreclosure of collateral.

NYMT s access to financing sources, which may not be available on favorable terms, or at all, especially in light of current market conditions, may be limited, and this may materially adversely affect its business, financial condition and results of operations and its ability to make distributions to its stockholders.

NYMT depends upon the availability of adequate capital and financing sources to fund its operations. However, as previously discussed, the capital and credit markets recently experienced unprecedented levels of volatility and disruption which exerted downward pressure on stock prices and credit capacity for lenders. If these levels of market volatility and disruption recur, it could materially adversely affect one or more of its lenders and could cause one or more of its lenders to be unwilling or unable to provide NYMT with financing, or to increase the costs of that financing, or to become insolvent. Moreover, NYMT is currently party to repurchase agreements of a short duration and there can be no assurance that it will be able to roll over or re-set these borrowings on favorable terms, if at all. In the event NYMT were unable to roll over or re-set its reverse repos, it may be more difficult for NYMT to obtain debt financing on favorable terms or at all. In addition, if regulatory capital requirements imposed on its lenders change, they may be required to limit, or increase the cost of, financing they provide to NYMT. In general, this could potentially increase its financing costs and reduce its liquidity or require NYMT to sell assets at an inopportune time or price. Under current market conditions, securitizations are generally unavailable or limited, which has also limited borrowings under warehouse facilities and other credit facilities that are intended to be refinanced by such securitizations. Consequently, depending on market conditions at the relevant time, NYMT may have to rely on additional equity issuances to meet its capital and financing needs, which may be dilutive to its stockholders, or it may have to rely on less efficient forms of debt financing that consume a larger portion of its cash flow from operations, thereby reducing funds available for its operations, future business opportunities, cash distributions to its stockholders and other purposes. NYMT cannot assure you that it will have access to such equity or debt capital on favorable terms (including, without limitation, cost and term) at the desired times, or at all, which may cause NYMT to curtail its asset acquisition activities and/or dispose of assets, which could materially adversely affect its business, financial condition and results of operations and its ability to make distributions to its stockholders.

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NYMT may incur increased borrowing costs related to repurchase agreements and that would adversely affect its profitability.

Currently, a significant portion of NYMT s borrowings are collateralized borrowings in the form of repurchase agreements. If the interest rates on these agreements increase at a rate higher than the increase in rates payable on its investments, its profitability would be adversely affected.

NYMT s borrowing costs under repurchase agreements generally correspond to short-term interest rates such as LIBOR or a short-term Treasury index, plus or minus a margin. The margins on these borrowings over or under short-term interest rates may vary depending upon a number of factors, including, without limitation:

- the movement of interest rates;
- the availability of financing in the market; and
- the value and liquidity of its mortgage-related assets.

During 2008 and 2009, many repurchase agreement lenders required higher levels of collateral than they had required in the past to support repurchase agreements collateralized by Agency RMBS. Although these collateral requirements have been reduced to more appropriate levels, NYMT cannot assure you that they will not again experience a dramatic increase. If the interest rates, lending margins or collateral requirements under these repurchase agreements increase, or if lenders impose other onerous terms to obtain this type of financing, its results of operations will be adversely affected.

The repurchase agreements that NYMT uses to finance its investments may require NYMT to provide additional collateral, which could reduce its liquidity and harm NYMT s financial condition.

NYMT intends to use repurchase agreements to finance its investments. If the market value of the loans or securities pledged or sold by NYMT to a funding source decline in value, it may be required by the lending institution to provide additional collateral or pay down a portion of the funds advanced, but NYMT may not have the funds available to do so. Posting additional collateral to support its repurchase agreements will reduce its liquidity and limit its ability to leverage its assets. In the event NYMT does not have sufficient liquidity to meet such requirements, lending institutions can accelerate its indebtedness, increase its borrowing rates, liquidate its collateral at inopportune times and terminate its ability to borrow. This could result in a rapid deterioration of its financial condition and possibly require NYMT to file for protection under the U.S. Bankruptcy Code.

Risks Related to Our Industry

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

Firms in the financial services industry have been operating in a difficult regulatory environment which we expect will become even more stringent in light of recent well-publicized failures of regulators to detect and prevent fraud. The industry has experienced increased scrutiny from a variety of regulators, including the SEC, the NYSE, the FINRA and state attorneys general. Penalties and fines sought by regulatory authorities have increased substantially over the last several years. This regulatory and enforcement environment has created uncertainty with respect to a number of transactions that had historically been entered into by financial services firms and that were generally believed to be permissible and appropriate. We may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and self-regulatory organizations. Each of the regulatory bodies with jurisdiction over us has regulatory powers dealing with many aspects of financial services, including, but not limited to, the authority to fine us and to grant, cancel, restrict or otherwise impose conditions on the right to carry on particular businesses. For example, a failure to comply with the obligations imposed by the Securities Exchange Act of 1934, as amended, on broker-dealers and the Investment Advisers Act on investment advisers, including record-keeping, advertising and operating requirements, disclosure obligations and prohibitions on fraudulent activities, or by the Investment

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Company Act of 1940, could result in investigations, sanctions and reputational damage. We also may be adversely affected as a result of new or revised legislation or regulations imposed by the SEC, other United States or foreign governmental regulatory authorities or the FINRA or other self-regulatory organizations that supervise the financial markets. Substantial legal liability or significant regulatory action against us could have adverse financial effects on us or cause reputational harm to us, which could harm our business prospects.

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

Asset management businesses have experienced a number of highly publicized regulatory inquiries which have resulted in increased scrutiny within the industry and new rules and regulations for mutual funds, investment advisors and broker-dealers. Although we do not act as an investment advisor to mutual funds, we are registered as an investment advisor with the SEC and the regulatory scrutiny and rulemaking initiatives may result in an increase in operational and compliance costs or the assessment of significant fines or penalties against our asset management business, and may otherwise limit our ability to engage in certain activities. In addition, the SEC staff has conducted studies with respect to soft dollar practices in the brokerage and asset management industries and proposed interpretive guidance regarding the scope of permitted brokerage and research services in connection with soft dollar practices. The SEC staff has indicated that it is considering additional rulemaking in this and other areas, and we cannot predict the effect that additional rulemaking may have on our asset management or brokerage business or whether it will be adverse to us. For example, the SEC recently instituted a permanent ban on naked short sales. In addition, Congress is currently considering imposing new requirements on entities that securitize assets, which could affect our credit activities. It is impossible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed, or whether any of the proposals will become law. Compliance with any new laws or regulations could make compliance more difficult and expensive and affect the manner in which we conduct business.

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

The recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) institutes a wide range of reforms that will impact financial services firms and requires significant rule-making. In addition, the legislation mandates multiple studies, which could result in additional legislative or regulatory action. For example, in January 2011 the SEC released its mandated study on the effectiveness of current legal and regulatory standards for broker-dealers and investment advisers, which may result in the imposition of fiduciary duties on broker-dealers. The legislation and regulation of financial institutions, both domestically and internationally, include calls to increase capital and liquidity requirements; limit the size and types of the activities permitted; and increase taxes on some institutions. The FINRA s oversight over broker-dealers and investment advisors may be expanded, and new regulations on having investment banking and securities analyst functions in the same firm may be created. Many of the provisions of the Dodd-Frank Act are subject to further rule making procedures and studies and will take effect over several years. As a result, we cannot assess the

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impact of these new legislative and regulatory changes on our business at the present time. However, these legislative and regulatory changes could affect our revenue, limit our ability to pursue business opportunities, impact the value of assets that we hold, require us to change certain of our business practices, impose additional costs on us, or otherwise adversely affect our businesses. If we do not comply with current or future legislation and regulations that apply to our operations, we may be subject to fines, penalties or material restrictions on our businesses in the jurisdiction where the violation occurred. Accordingly, such new legislation or regulation could have an adverse effect on our business, results of operations, cash flows or financial condition.

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

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

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

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

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

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

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

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

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

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

We are not an investment company under the Investment Company Act of 1940. However, if we were to cease operating and controlling the business and affairs of JMP Securities LLC and Harvest Capital Strategies LLC or if either of these subsidiaries were deemed to be an investment company, our interest in those entities could be deemed an investment security for purposes of the Investment Company Act of 1940. We intend to conduct our operations so that we will not be deemed an investment company. However, if we were to be

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deemed an investment company, restrictions imposed by the Investment Company Act of 1940, including limitations on our capital structure and our ability to transact with affiliates, could make it impractical for us to continue our business as contemplated and would harm our business and the price of our common stock.

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We occupy four principal offices, with our headquarters located in San Francisco, other offices in New York, Boston and Chicago, and additional space in the state of Georgia, all of which are leased. Our San Francisco headquarters is located at 600 Montgomery Street and comprises approximately 50,430 square feet of leased space, pursuant to lease agreements expiring in 2011. In New York, we lease approximately 9,940 square feet at 450 Park Avenue pursuant to a lease agreement expiring in 2011. Our Boston office is located at 265 Franklin Street and consists of approximately 2,490 square feet of leased space pursuant to a lease agreement expiring in 2011. In Chicago, we lease approximately 2,500 square feet at 190 South LaSalle Street pursuant to a lease agreement expiring 2015. In the state of Georgia, we lease approximately 150 square feet in Atlanta at 3340 Peachtree Road NE pursuant to a sublease agreement expiring in 2011 and lease approximately 21,920 square feet in Alpharetta at 3440 Preston Ridge Road pursuant to a lease agreement expiring in 2012. We sublease 15,130 square feet of the total space in Alpharetta to third parties.

Item 3. Legal Proceedings

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

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

Item 4. Reserved

None.

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PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities
Market Information and Dividend Policy

Our common stock is traded on the NYSE under the symbol JMP. The following table sets forth, for the years ended December 31, 2010 and 2009, the high and low sales prices per share of our common stock, as quoted on the NYSE.

	Sales Price	
	High	Low
Year Ended December 31, 2010		
First quarter	$ 9.81	$ 7.62
Second quarter	8.46	6.19
Third quarter	7.43	5.73
Fourth quarter	7.98	6.07

	Sales Price	
	High	Low
Year Ended December 31, 2009		
First quarter	$ 5.45	$ 3.90
Second quarter	7.77	4.35
Third quarter	10.95	7.28
Fourth quarter	10.45	8.16

As of December 31, 2010, there were approximately 188 holders of record of our common stock.

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

The Company s board of directors declared the following dividends in the years ended December 31, 2010 and 2009:

Year Ended December 31, 2010

Declaration Date	Dividend Per Share	Record Date	Total Amount	Payment Date
March 2, 2010	$ 0.010	March 19, 2010	$ 216,765	April 2, 2010
May 4, 2010	$ 0.015	May 21, 2010	$ 329,862	June 4, 2010
August 3, 2010	$ 0.015	August 20, 2010	$ 325,974	September 3, 2010
November 2, 2010	$ 0.015	November 19, 2010	$ 326,008	December 3, 2010

Year Ended December 31, 2009

Declaration Date	Dividend Per Share	Record Date	Total Amount	Payment Date
March 3, 2009	$ 0.010	March 20, 2009	$ 205,054	April 3, 2009
May 5, 2009	$ 0.010	May 22, 2009	$ 207,501	June 5, 2009
August 4, 2009	$ 0.010	August 21, 2009	$ 207,561	September 4, 2009
November 4, 2009	$ 0.010	November 20, 2009	$ 215,336	December 4, 2009

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Issuer Purchases of Equity Securities

The following table summarizes the stock repurchases for the fourth quarter of 2010:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)
October 1, 2010 to October 31, 2010		$		481,369
November 1, 2010 to November 31, 2010	366(2)	$ 6.68	366	481,003
December 1, 2010 to December 31, 2010		$		481,003
Total	366		366	

(1) A 1.5 million share repurchase program authorized in August and November 2007 was fully executed as of January 18, 2008. On March 10, 2008, March 3, 2009 and May 4, 2010, the Company s board of directors authorized the repurchase of an additional 2.0 million shares during the subsequent eighteen months, the repurchase of an additional 0.5 million shares during the subsequent twelve months and the repurchase of an additional 1.0 million shares during the subsequent eighteen months, respectively.

(2) For certain restricted stock units, the number of shares issued upon settlement of the restricted stock units was net of the statutory tax withholding requirements that we paid on behalf of our employees. The total number of shares purchased in November 2010 represents the net shares that were not issued to employees in connection with the settlement of restricted stock units, and therefore such shares were deemed to have been purchased by the Company.

Information relating to compensation plans under which our equity securities are authorized for issuance is set forth in Part III, Item 12 of this Form 10-K.

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Stock Performance Graph

The following graph compares the cumulative total stockholder return on our common stock with the cumulative total return on the Russell 2000 Index and a peer group index for the period from May 11, 2007 to December 31, 2010. The graph and table below assume that $100 was invested on the starting date and that dividends, if any, were reinvested on the date of payment without payment of any commissions. The performance shown in the graph and table represents past performance and should not be considered an indication of future performance.

	5/11/07	6/30/07	9/30/07	12/31/07	3/31/08	6/30/08	9/30/08	12/31/08
JMP Group Inc.	$ 100	$ 85	$ 76	$ 70	$ 56	$ 55	$ 44	$ 47
Russell 2000 Index	100	101	98	93	83	84	83	62
Peer Group Index	100	94	89	76	58	56	76	55

	3/31/09	6/30/09	9/30/09	12/31/09	3/31/10	6/30/10	9/30/10	12/31/10
JMP Group Inc.	$ 41	$ 66	$ 83	$ 83	$ 73	$ 53	$ 53	$ 66
Russell 2000 Index	52	63	75	78	85	77	86	99
Peer Group Index	49	72	88	79	74	62	65	79

Our peer group index includes the following companies in the broker-dealer industry: Cowen Group, Inc.; FBR Capital Markets Corporation; Gleacher & Co, Inc.; Jefferies Group Inc.; KBW, Inc.; Oppenheimer Holdings, Inc.; Piper Jaffray Companies, Inc.; Rodman & Renshaw Capital Group, Inc.; Stifel Financial Corp.; and Thomas Weisel Partners Group, Inc. The total return calculations reflected in the foregoing graph and table were performed by Morningstar.

The information provided above under the heading Stock Performance Graph shall not be considered filed for purposes of Section 18 of the Securities Exchange Act of 1934 or incorporated by reference in any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

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Item 6. Selected Financial Data

SELECTED CONSOLIDATED FINANCIAL DATA

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

The selected consolidated statements of financial condition data as of December 31, 2010 and 2009 and the selected consolidated statements of operations data for each of the three years in the period ended December 31, 2010 have been derived from our audited consolidated financial statements and accompanying notes included elsewhere in this Form 10-K and should be read together with those consolidated financial statements and accompanying notes.

The selected consolidated statements of financial condition data as of December 31, 2008, 2007 and 2006 and the selected consolidated statement of operations data for the year ended December 31, 2006 and for the periods from January 1, 2007 through May 15, 2007 and from May 16, 2007 through December 31, 2007 have been derived from audited consolidated financial statements not included in this Form 10-K.

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

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

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(In thousands, except per share data and selected data and operating metrics)	**December 31, 2010 Successor**	**December 31, 2009 Successor**	**December 31, 2008 Successor**	**January 1, 2007 through May 15, 2007 Predecessor**	**May 16, 2007 through December 31, 2007 Successor**	**December 31, 2006 Predecessor**
Statement of Operation Data						
Revenues						
Investment banking	$ 45,519	$ 39,924	$ 27,249	$ 16,055	$ 33,222	$ 44,060
Brokerage	28,259	34,004	35,731	12,987	21,835	30,185
Asset management fees	12,231	20,148	11,369	1,218	3,830	4,531
Principal transactions	3,421	18,517	(4,657)	541	2,404	4,288
Gain on sale and payoff of loans	39,363	22,268				
Gain on repurchase of asset-backed securities issued		4,705				
Gain on bargain purchase		1,179				
Net dividend income	2,248	2,521	3,174	399	1,449	678
Other income	3,466	2,593	1,158	326	534	373
Non-interest revenues	134,507	145,859	74,024	31,526	63,274	84,115
Interest income	45,209	35,370	2,392	732	2,007	2,571
Interest expense	(33,687)	(25,924)	(408)	(570)	(160)	(1,566)
Net interest income	11,522	9,446	1,984	162	1,847	1,005
Provision for loan losses	(1,327)	(5,821)	(2,896)			
Total net revenues after provision for loan losses	144,702	149,484	73,112	31,688	65,121	85,120
Non-interest Expenses						
Compensation and benefits	95,708	105,179	65,746	18,393	45,618	50,136
Income allocation and accretion - Redeemable Class A member interests (1)				117,418		10,664
Administration	5,767	5,050	5,887	1,771	3,371	4,204
Brokerage, clearing and exchange fees	5,110	5,284	5,063	1,689	3,366	4,133
Travel and business development	3,401	2,396	3,472	1,197	1,930	4,028
Communications and technology	3,969	3,892	3,837	1,390	2,475	3,372
Professional fees	3,380	3,589	3,065	376	2,054	1,011
Impairment loss on purchased management contract	2,750					
Other	3,912	3,749	2,888	984	2,057	3,756
Total non-interest expenses	123,997	129,139	89,958	143,218	60,871	81,304
Income (loss) before income tax expense	20,705	20,345	(16,846)	(111,530)	4,250	3,816
Income tax expense (benefit)	9,039	7,663	(5,701)		(2,537)	
Net income (loss)	11,666	12,682	(11,145)	(111,530)	6,787	3,816
Less: Net income (loss) attributable to noncontrolling interests (2)	2,805	1,872	(498)	167	247	428
Net income (loss) attributable to JMP Group Inc. (3)	$ 8,861	$ 10,810	$ (10,647)	$ (111,697)	$ 6,540	$ 3,388
Net (loss) income per common share:						
Basic	$ 0.41	$ 0.52	$ (0.53)	$	$ 0.30	$
Diluted	$ 0.40	$ 0.49	$ (0.53)	$	$ 0.30	$
Dividends declared and paid per common share:	$ 0.06	$ 0.04	$ 0.20	$	$ 0.075	$
Weighted average common shares outstanding:						
Basic	21,646	20,791	20,211		21,830	
Diluted	22,396	22,137	20,211		21,916	

Net (loss) per unit-Class A common interests: (3) (4)						
Basic	$	$	$	$ (23.84)	$	$ 0.91
Diluted	$	$	$	$ (23.84)	$	$ 0.89
Weighted average units outstanding Class A common interests: (4)						
Basic				2,385		1,435
Diluted				2,385		1,468
Net (loss) per unit Class B common interests: (3) (4)						
Basic	$	$	$	$ (23.84)	$	$ 0.91
Diluted	$	$	$	$ (23.84)	$	$ 0.89
Weighted average units outstanding Class B common interests: (4)						
Basic				2,300		2,300
Diluted				2,300		2,353

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(Dollars in thousands)	December 31, 2010 Successor	December 31, 2009 Successor	December 31, 2008 Successor	December 31, 2007 Successor	December 31, 2006 Predecessor
Statement of Financial Condition Data					
Total assets	$ 637,852	$ 574,721	$ 152,846	$ 184,711	$ 103,699
Asset-backed securities issued	351,322	326,632			
Note payable	26,209	9,045	8,681		
Redeemable Class A member interests					12,914
Total liabilities	496,542	449,070	39,774	54,506	51,208
Total equity	141,310	125,651	113,072	130,206	52,491
Selected Data and Operating Metrics (Unaudited)					
Number of employees end of period	215	224	191	202	187
Number of employees average	218	211	198	194	181
Net revenues after provision for loan losses per employee	$ 664	$ 708	$ 369	$ 499	$ 470
Compensation and benefits as a % of net revenues after provision for loan losses (5)	64.4%	68.2%	84.6%	58.7%	58.9%
Companies covered by research analysts	317	286	200	213	279
Number of completed investment banking transactions	74	56	35	71	75

(1) Prior to our initial public offering we were organized as a limited liability company and issued to employee members Redeemable Class A member interests, which were entitled to their pro rata share of our income. Our Third Amended and Restated Limited Liability Company Agreement, as amended, provided that each employee member may elect to redeem their Redeemable Class A member interests upon resignation from us. Because of this repurchase feature, the Redeemable Class A member interests were classified as a liability in our statement of financial condition. As a result of the liability classification, the pro rata share of income allocated to the Redeemable Class A member interests based on ownership percentages and any changes in the redemption amount of the Redeemable Class A member interests were recorded as expense in our statement of income.

(2) Noncontrolling interest relate to the interest of third parties in Harvest Mortgage Opportunities Partners (from May 1, 2009 through December 31, 2010), JMP Realty Trust (through December 31, 2008), in two asset management funds, Harvest Consumer Partners (through November 30, 2008), Harvest Technology Partners (through July 31, 2008) and in Opportunity Acquisition Corp (through December 31, 2009).

(3) Prior to our initial public offering we were a limited liability company and our earnings did not reflect the income taxes we pay as a corporation.

(4) We issued 2,300,000 units of Class B common interests in a private offering in August 2004, which represented 15.5% of our outstanding membership interests. Because there is a direct relationship between the number of Class B common interests outstanding and the ownership percentage in our equity, we were able to determine the number of units associated with the Class A common interests outstanding. As a result, we were able to determine earnings per share, based on an implied number of Class A common interests and an existing number of Class B common interests outstanding. We have reflected this implied number of units for purposes of determining earnings per share in all periods presented.

(5) Compensation and benefits include salaries, performance-based cash payments and equity awards to our managing directors and other employees, but excludes compensation expense of $2.6 million, $3.2 million, $3.9 million and $7.2 million for the years ended December 31, 2010, 2009, 2008 and 2007, respectively, related to equity awards granted or vested in connection with our initial public offering.

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

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

Overview

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

- investment banking, including corporate finance, mergers and acquisitions and other strategic advisory services, to corporate clients;
- sales and trading, and related brokerage services to institutional investors;
- proprietary equity research in our six target industries;
- asset management products and services to institutional investors, high net-worth individuals and for our own account; and
- management of collateralized loan obligations.

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

Components of Revenues

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

Investment Banking

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

Underwriting Revenues

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

Strategic Advisory Revenues

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

Private Placement Revenues

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

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

Brokerage Revenues

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

Asset Management Fees

Asset management fees for hedge funds, hedge funds of funds, private equity funds and REITs include base management fees and incentive fees earned from managing investment partnerships sponsored by us and from managing a portion of the net assets of New York Mortgage Trust, Inc. (NYMT) pursuant to the advisory agreement between HCS and NYMT entered into in January 2008. The advisory agreement was terminated effective July 26, 2010 upon execution of an amended and restated advisory agreement between HCS and NYMT. Under the amended advisory agreement, HCS manages certain assets of NYMT, which are subject to the base advisory fee and incentive fee calculations, and receives an annual consulting fee equal to $1.0 million. Base management fees earned by us are generally based on the fair value of assets under management or aggregate capital commitments and the fee schedule for each fund and account. We also earn incentive fees that are based upon the performance of investment funds and accounts. For most of the funds, such fees are based on a percentage of the excess of an investment return over a specified highwater mark or hurdle rate over a defined performance period. For private equity funds, incentive fees are based on a specified percentage of realized gains from the disposition of each portfolio investment in which each investor participates, and are earned by the Company after returning contributions by the investors for that portfolio investment and for all other portfolio investments in which each such investor participates that have been disposed of at the time of distribution.

As of December 31, 2010, the contractual base management fees earned from each of these investment funds ranged between 1% and 2% of assets under management or were 2% of aggregate committed capital. The contractual incentive fees were generally (i) 20%, subject to high-water marks, for the hedge funds; (ii) 5% to 20%, subject to high-water marks or a performance hurdle rate, for the hedge funds of funds; (iii) 25%, subject to a performance hurdle rate, for Harvest Mortgage Opportunities Partners (HMOP); 35%, subject to high-water marks for New York Mortgage Trust, Inc. (NYMT); and (iv) 20%, subject to high-water marks, for HGC. HMOP was liquidated on December 31, 2010, with all of its partners redeeming their interests as of that date. The assets of HMOP were distributed to its partners in January 2011. Our asset management revenues are subject to fluctuations due to a variety of factors that are unpredictable, including the overall condition of the economy and the securities markets as a whole and our core sectors. These conditions can have a material effect on the inflows and outflows of assets under management, and the performance of our asset management funds. For example, a significant portion of the performance-based or incentive revenues that we recognize are based on the value of securities held in the funds we manage. The value of these securities includes unrealized gains or losses that may change from one period to another.

Asset management fees for the two CLOs the Company manages currently consist only of senior and subordinated base management fees. For one of the CLOs, the Company earns incentive fees in the event that specified cumulative investment returns are achieved; such investment returns have not been achieved yet. The Company recognizes base management fees for the CLOs on a monthly basis over the period in which the collateral management services are performed. The base management fees for the CLOs are calculated as a percentage of the average aggregate collateral balances for a specified period. As we consolidate Cratos CLO, the management fees earned at JMPCA from Cratos CLO are eliminated on consolidation in accordance with U.S. GAAP. At December 31, 2010, the contractual base management fees earned from the CLOs ranged from 0.40% to 0.50% of the average aggregate collateral balance for a specified period.

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

(In thousands)	Assets Under Management (1) at December 31, 2010	Assets Under Management (1) at December 31, 2009	Company's Share of Assets Under Management at December 31, 2010	Company's Share of Assets Under Management at December 31, 2009
Funds Managed by HCS:				
Hedge Funds:				
Harvest Opportunity Partners II	$ 70,622	$ 73,895	$ 3,873	$ 10,438
Harvest Small Cap Partners	270,498	336,083	4,378	8,741
Harvest Consumer Partners	8,702	12,117	580	5,590
Harvest Technology Partners	26,029	22,395	106	7,457
Harvest Mortgage Opportunities Partners (2)		10,544		7,090
Harvest Global Select Partners (3)		5,559		1,086
Harvest Diversified Partners	31,413		14,708	
Private Equity Funds:				
Harvest Growth Capital LLC (2)	10,698		891	
Funds of Funds:				
JMP Masters Fund	75,196	97,931	102	2,933
REITs:				
New York Mortgage Trust	48,191	48,414	N/A	N/A
HCS Totals	$ 541,349	$ 606,938	$ 24,638	$ 43,335
CLOs Managed by JMPCA:				
Cratos CLO (2)	474,824	495,111	N/A	N/A
Other	284,264		N/A	N/A
JMPCA Totals	$ 759,088	$ 495,111	$ N/A	$ N/A
JMP Group Inc. Totals	$ 1,300,437	$ 1,102,049	$ 24,638	$ 43,335

(1) For hedge funds, private equity funds and funds of funds, assets under management represent the net assets of such funds. For New York Mortgage Trust (NYMT), assets under management represent the portion of the net assets of NYMT that is subject to the management fee calculation. In connection with its investment in NYMT, in January 2008, the Company entered into an advisory agreement between HCS and NYMT. The advisory agreement was terminated effective July 26, 2010 upon execution of an amended and restated advisory agreement between HCS and NYMT. Under the amended advisory agreement, HCS manages certain assets of NYMT, which are subject to the base advisory fee and incentive fee calculations, and receives an annual consulting fee equal to $1.0 million. For CLOs, assets under management represent the sum of the aggregate collateral balance and restricted cash to be reinvested in collateral, upon which management fees are earned.

(2) HMOP and Cratos CLO were consolidated in the Company s Statements of Financial Condition at December 31, 2010 and December 31, 2009. HMOP was liquidated on December 31, 2010, with all of its partners redeeming their interests as of that date. The assets of HMOP were distributed to its partners in January 2011. HGC was consolidated in the Company s Statement of Financial Condition at December 31, 2010.

(3) Harvest Global Select Partners was liquidated on May 31, 2010 and its assets were distributed to its partners.

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(In thousands)	Year Ended December 31, 2010 Company's Share of Change in Fair Value	Management Fee	Incentive Fee	TWR (1)
Hedge Funds:				
Harvest Opportunity Partners II	$ 184	$ 686	$ 381	5.3%
Harvest Small Cap Partners	(271)	5,867	212	-1.8%
Harvest Consumer Partners	(204)	88	11	0.3%
Harvest Technology Partners	(236)	308	65	0.6%
Harvest Mortgage Opportunities Partners (2)	778	156	166	6.7%
Harvest Global Select Partners (3)	60	31	118	10.1%
Harvest Diversified Partners	1,046	268	118	3.7%
Private Equity Funds:				
Harvest Growth Capital LLC (2)	150	254		N/A
Funds of Funds:				
JMP Masters Fund	119	702	1	5.8%
REITs:				
New York Mortgage Trust	226	809	1,997	N/A
CLOs:				
Cratos CLO (2)	N/A	2,399	N/A	N/A
Other	N/A	556		N/A
Totals	$ 1,852	$ 12,124	$ 3,069	N/A

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

(2) Revenues earned from HMOP, HGC and Cratos CLO are consolidated and then eliminated in consolidation in the Company s Statements of Operations, net of noncontrolling interest. HMOP was liquidated on December 31, 2010, with all of its partners redeeming their interests as of that date. The assets of HMOP were distributed to its partners in January 2011.

(3) Harvest Global Select Partners was liquidated on May 31, 2010 and its assets were distributed to its partners.

(In thousands)	Year Ended December 31, 2009 Company's Share of Change in Fair Value	Management Fee	Incentive Fee	TWR (1)
Hedge Funds:				
Harvest Opportunity Partners II	$ 2,794	$ 587	$ 1,422	31.6%
Harvest Small Cap Partners	1,889	5,798	9,200	14.6%
Harvest Consumer Partners	884	59	133	23.3%
Harvest Technology Partners	1,661	126	298	25.5%
Harvest Mortgage Opportunities Partners (2)	1,999	206		24.6%
Harvest Global Select Partners (3)	86	44	61	6.7%
Funds of Funds:				
JMP Masters Fund	232	955		12.5%
JMP Emerging Masters Fund (4)	23	99		5.9%
REITs:				
New York Mortgage Trust	4,046	746	525	N/A
CLOs:				
Cratos CLO (2)	N/A	1,857	N/A	N/A
Other	N/A			N/A

Totals	$ 13,614	$ 10,477	$ 11,639	N/A

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(1) Time-weighted rate of return, or TWR, for the hedge funds and funds of funds. TWR is a measure of the compound rate of growth in a portfolio and eliminates the effect of varying cash inflows by assuming a single investment at the beginning of a period and measuring the growth or loss of market value to the end of that period.
(2) Effective May 1, 2009, revenues earned from HMOP are consolidated and then allocated to noncontrolling interest in consolidation in the Company s Statements of Operations. HMOP was liquidated on December 31, 2010, with all of its partners redeeming their interests as of that date. The assets of HMOP were distributed to its partners in January 2011. Effective April 7, 2009, revenues earned from Cratos CLO are consolidated and then eliminated in consolidation in the Company s Statements of Operations, net of noncontrolling interest.
(3) Harvest Global Select Partners was liquidated on May 31, 2010 and its assets were distributed to its partners.
(4) JMP Emerging Masters Fund was liquidated on December 31, 2009 and its assets were distributed to its partners.

	Year Ended December 31, 2008			
	Company's Share of Change in Fair Value	Management Fee	Incentive Fee	TWR (1)
Hedge Funds:				
Harvest Opportunity Partners II	$ (84)	$ 686	$ 39	-1.3%
Harvest Small Cap Partners	2,608	2,853	5,856	19.4%
Harvest Consumer Partners (2)	55	28	2	1.9%
Harvest Technology Partners (2)	189	37	22	7.2%
Funds of Funds:				
JMP Masters Fund	(666)	905	33	-21.7%
JMP Emerging Masters Fund (3)	(117)	104	9	-11.0%
REITs:				
JMP Realty Trust (2)	(988)	257		N/A
New York Mortgage Trust	(4,288)	665		N/A
Totals	$ (3,291)	$ 5,535	$ 5,961	N/A

(1) Time-weighted rate of return, or TWR, for the hedge funds and funds of funds. TWR is a measure of the compound rate of growth in a portfolio and eliminates the effect of varying cash inflows by assuming a single investment at the beginning of a period and measuring the growth or loss of market value to the end of that period.
(2) Revenues earned from HTP, HCP and JMPRT were consolidated and then allocated to noncontrolling interest in the Company s Statements of Operations, through July 31, 2008, November 30, 2008 and January 1, 2009, respectively. HTP and HCP were deconsolidated effective August 1, 2008 and December 1, 2008, respectively. All of the assets and liabilities of JMPRT were transferred to HMOP on January 2, 2009.
(3) JMP Emerging Masters Fund was liquidated and its assets were distributed to its partners on December 31, 2009.

Principal Transactions

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

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

Gain on Sale and Payoff of Loans

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

Gain on Repurchase of Asset-Backed Securities Issued

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

Gain on Bargain Purchase

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

Net Dividend Income

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

Other Income

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

Interest Income

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

Interest Expense

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

Provision for Loan Losses

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

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

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

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

Components of Expenses

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

Compensation and Benefits

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

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

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Administration

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

Brokerage, Clearing and Exchange Fees

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

Travel and Business Development

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

Communications and Technology

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

Professional Fees

Professional fees primarily relate to legal and accounting professional services.

Impairment Loss on Purchased Management Contract

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

Other Expenses

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

Noncontrolling Interest

Noncontrolling interest for year ended December 31, 2010 includes the interest of third parties in JMP Credit (through August 6, 2010), Cratos CLO (effective August 7, 2010), Harvest Mortgage Opportunities Partners (HMOP through December 31, 2010) and Harvest Growth Capital (HGC effective April 1, 2010), partially-owned subsidiaries consolidated in our financial statements. HMOP was liquidated on December 31, 2010, with all of its partners redeeming their interests effective that date. The assets of HMOP were distributed to its partners in January 2011. Noncontrolling interest for the year ended December 31, 2009 includes the interest of third parties in JMP Credit, HMOP and Opportunity Acquisition Corp. (SPAC), partially-owned subsidiaries consolidated in our financial statements. SPAC was liquidated on December 31, 2009 with no distribution of assets to the noncontrolling interest holders due to its accumulated loss.

The partnership agreements for HMOP provide for the right of the limited partners to remove the general partners by a simple majority vote of the non-affiliated limited partners. The Company follows the authoritative guidance under GAAP regarding the determination of whether a general partner, or the general partners as a group, controls a limited partnership or similar entity when the limited partners have certain rights. Such guidance applies when a general partner controls a limited partnership and is required to consolidate the limited partnership in its financial statements. Under the guidance, the general partner in a limited partnership is presumed to control the limited partnership regardless of the extent of the general partners ownership interest in the limited partnership. If the limited partners have either (a) the substantive ability to liquidate the limited partnership or otherwise remove the general partner without cause or (b) substantive participating rights, the general partner does not control the limited partnership. The partnership agreements for HMOP provide for the right of the limited partners to remove the general partner by a simple majority vote of the non-affiliated limited partners. Because of these substantive kick-out rights, the Company, as the general partner, did not control HMOP and therefore did not consolidate HMOP from January 2, 2009 through April 30, 2009. During the quarter ended June 30, 2009, several non-affiliated limited partners redeemed their interest in HMOP, and the remaining limited partners were no longer deemed to have substantive kick-out rights. As a result, the Company consolidated HMOP in its consolidated financial statements from May 1, 2009 through December 31, 2010.

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

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

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Historical Results of Operations

The following table sets forth our historical results of operations for the years ended December 31, 2010, 2009 and 2008 and is not necessarily indicative of the results to be expected for any future period.

	Year Ended December 31,		Change from 2009 to 2010	
(In thousands)	2010	2009	$	%
Revenues				
Investment banking	$ 45,519	$ 39,924	$ 5,595	14.0%
Brokerage	28,259	34,004	(5,745)	-16.9%
Asset management fees	12,231	20,148	(7,917)	-39.3%
Principal transactions	3,421	18,517	(15,096)	-81.5%
Gain on sale and payoff of loans	39,363	22,268	17,095	76.8%
Gain on repurchase of asset-backed securities issued		4,705	(4,705)	N/A
Gain on bargain purchase		1,179	(1,179)	N/A
Net dividend income	2,248	2,521	(273)	-10.8%
Other income	3,466	2,593	873	33.7%
Non-interest revenues	134,507	145,859	(11,352)	-7.8%
Interest income	45,209	35,370	9,839	27.8%
Interest expense	(33,687)	(25,924)	(7,763)	29.9%
Net interest income	11,522	9,446	2,076	22.0%
Provision for loan losses	(1,327)	(5,821)	4,494	-77.2%
Total net revenues after provision for loan losses	144,702	149,484	(4,782)	-3.2%
Non-interest Expenses				
Compensation and benefits	95,708	105,179	(9,471)	-9.0%
Administration	5,767	5,050	717	14.2%
Brokerage, clearing and exchange fees	5,110	5,284	(174)	-3.3%
Travel and business development	3,401	2,396	1,005	41.9%
Communications and technology	3,969	3,892	77	2.0%
Professional fees	3,380	3,589	(209)	-5.8%
Impairment loss on purchased management contract	2,750		2,750	N/A
Other	3,912	3,749	163	4.3%
Total non-interest expenses	123,997	129,139	(5,142)	-4.0%
Income before income tax expense	20,705	20,345	360	1.8%
Income tax expense	9,039	7,663	1,376	18.0%
Net income	11,666	12,682	(1,016)	-8.0%
Less: Net income attributable to noncontrolling interest	2,805	1,872	933	49.8%
Net income attributable to JMP Group Inc.	$ 8,861	$ 10,810	$ (1,949)	-18.0%

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	Year Ended December 31,		Change from	
(In thousands)	2009	2008	2008 to 2009	
Revenues				
Investment banking	$ 39,924	$ 27,249	$ 12,675	46.5%
Brokerage	34,004	35,731	(1,727)	-4.8%
Asset management fees	20,148	11,369	8,779	77.2%
Principal transactions	18,517	(4,657)	23,174	N/A
Gain on sale and payoff of loans	22,268		22,268	N/A
Gain on repurchase of asset-backed securities issued	4,705		4,705	N/A
Gain on bargain purchase	1,179		1,179	N/A
Net dividend income	2,521	3,174	(653)	-20.6%
Other income	2,593	1,158	1,435	123.9%
Non-interest revenues	145,859	74,024	71,834	97.0%
Interest income	35,370	2,392	32,978	1378.7%
Interest expense	(25,924)	(408)	(25,516)	6253.9%
Net interest income	9,446	1,984	7,462	376.1%
Provision for loan losses	(5,821)	(2,896)	(2,925)	101.0%
Total net revenues after provision for loan losses	149,484	73,112	76,371	104.5%
Non-interest Expenses				
Compensation and benefits	105,179	65,746	39,433	60.0%
Administration	5,050	5,887	(837)	-14.2%
Brokerage, clearing and exchange fees	5,284	5,063	221	4.4%
Travel and business development	2,396	3,472	(1,076)	-31.0%
Communications and technology	3,892	3,837	55	1.4%
Professional fees	3,589	3,065	524	17.1%
Other	3,749	2,888	861	29.8%
Total non-interest expenses	129,139	89,958		