

JMP Group Inc.
Form 10-Q
August 04, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011 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)

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Delaware
(State or Other Jurisdiction of

20-1450327
(I.R.S. Employer

Incorporation or Organization)

Identification No.)

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

(Address of principal executive offices)

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

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

The number of shares of the Registrant's common stock, par value \$0.001 per share, outstanding as of July 31, 2011 was 22,387,627.

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AVAILABLE INFORMATION

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

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

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

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. Financial Statements****JMP Group Inc.****Consolidated Statements of Financial Condition****(Unaudited)****(Dollars in thousands, except per share data)**

	June 30, 2011	December 31, 2010
Assets		
Cash and cash equivalents	\$ 61,445	\$ 71,114
Restricted cash and deposits (includes cash on deposit with clearing broker of \$255 at June 30, 2011 and December 31, 2010)	44,129	47,718
Receivable from clearing broker	1,550	1,331
Investment banking fees receivable, net of allowance for doubtful accounts of \$0 at June 30, 2011 and December 31, 2010	7,227	9,764
Marketable securities owned, at fair value	25,560	23,748
Incentive fee receivable	3,861	763
Other investments (of which \$52,595 and \$38,672 at fair value at June 30, 2011 and December 31, 2010, respectively)	52,894	38,702
Loans held for investment, net of allowance for loan losses	0	813
Loans collateralizing asset-backed securities issued, net of allowance for loan losses	415,618	400,763
Interest receivable	1,076	1,163
Fixed assets, net	2,065	1,481
Deferred tax assets	24,278	32,507
Other assets	8,015	7,998
Total assets	\$ 647,718	\$ 637,865
Liabilities and Equity		
Liabilities:		
Marketable securities sold, but not yet purchased, at fair value	\$ 12,619	\$ 10,669
Accrued compensation	27,520	37,424
Asset-backed securities issued	366,080	351,322
Interest payable	554	570
Note payable	23,590	26,209
Deferred tax liability	30,249	36,176
Other liabilities	32,831	33,443
Total liabilities	493,443	495,813
Commitments and Contingencies		
JMP Group Inc. Stockholders' Equity		
Common stock, \$0.001 par value, 100,000,000 shares authorized; 22,387,627 and 22,069,741 shares issued at June 30, 2011 and December 31, 2010, respectively; 22,387,627 and 21,737,367 shares outstanding at June 30, 2011 and December 31, 2010, respectively	22	22
Additional paid-in capital	123,689	128,151
Treasury stock, at cost, 0 and 332,374 shares at June 30, 2011 and December 31, 2010, respectively	0	(2,210)

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Accumulated other comprehensive loss	(102)	(63)
Retained earnings	8,751	4,696
Total JMP Group Inc. stockholders' equity	132,360	130,596
Noncontrolling Interest	21,915	11,456
Total equity	154,275	142,052
Total liabilities and equity	\$ 647,718	\$ 637,865

See accompanying notes to consolidated financial statements.

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

Assets and liabilities of consolidated VIE included in total assets and total liabilities above:

	June 30, 2011	December 31, 2010
Restricted cash	\$ 29,127	\$ 23,821
Loans collateralizing asset-backed securities issued, net of allowance for loan losses	415,618	400,763
Interest receivable	1,075	1,162
Deferred tax assets	9,785	15,685
Other assets	77	41
Total assets of consolidated VIE	\$ 455,682	\$ 441,472
Asset-backed securities issued	366,080	351,322
Interest payable	525	545
Deferred tax liability	28,097	34,110
Other liabilities	1,274	379
Total liabilities of consolidated VIE	\$ 395,976	\$ 386,356

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

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenues				
Investment banking	\$ 10,059	\$ 10,635	\$ 30,284	\$ 16,104
Brokerage	6,187	7,690	12,472	15,360
Asset management fees	6,046	3,142	9,199	6,033
Principal transactions	2,554	411	6,184	1,833
Gain on sale and payoff of loans	6,837	15,762	13,608	19,242
Net dividend income	298	499	548	1,115
Other income	682	305	1,510	801
Non-interest revenues	32,663	38,444	73,805	60,488
Interest income	7,728	13,003	18,348	24,581
Interest expense	(8,796)	(8,310)	(17,436)	(16,550)
Net interest income (expense)	(1,068)	4,693	912	8,031
Provision for loan losses	(134)	(291)	(354)	(455)
Total net revenues after provision for loan losses	31,461	42,846	74,363	68,064
Non-interest expenses				
Compensation and benefits	22,017	30,592	50,248	46,112
Administration	1,744	1,974	2,814	2,995
Brokerage, clearing and exchange fees	1,179	1,223	2,277	2,574
Travel and business development	791	1,001	1,461	1,921
Communications and technology	995	1,073	1,916	2,146
Occupancy	777	671	1,442	1,322
Professional fees	797	813	1,505	1,788
Depreciation	179	169	337	337
Impairment loss on purchased management contract	0	0	700	0
Other	134	214	238	344
Total non-interest expenses	28,613	37,730	62,938	59,539
Income before income tax expense	2,848	5,116	11,425	8,525
Income tax expense	1,281	2,102	3,764	3,491
Net income	1,567	3,014	7,661	5,034
Less: Net income attributable to noncontrolling interest	49	798	2,605	1,100
Net income attributable to JMP Group Inc.	\$ 1,518	\$ 2,216	\$ 5,056	\$ 3,934

Net income attributable to JMP Group Inc. per common share:

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Basic	\$ 0.07	\$ 0.10	\$ 0.23	\$ 0.18
Diluted	\$ 0.07	\$ 0.10	\$ 0.22	\$ 0.18
Dividends declared per common share	\$ 0.03	\$ 0.02	\$ 0.05	\$ 0.03
Weighted average common shares outstanding:				
Basic	22,254	21,654	22,050	21,633
Diluted	22,613	22,295	22,720	22,378

See accompanying notes to consolidated financial statements.

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

	JMP Group Inc. Stockholders Equity								
	Common Stock		Treasury	Additional	Retained	Accumulated	Noncontrolling	Comprehensive	Total
	Shares	Amount	Stock	Paid-In	Earnings	Other	Interest	Income	Equity
				Capital		Loss			
Balance, December 31, 2010	22,070	\$ 22	\$ (2,210)	\$ 128,151	\$ 4,696	\$ (63)	\$ 11,456	\$ 33,206	\$ 142,052
Net income	0	0	0	0	5,056	0	2,605	7,661	7,661
Additional paid-in capital - stock-based compensation	0	0	0	(8,295)	0	0	0	0	(8,295)
Additional paid-in capital - excess tax benefit related to stock-based compensation	0	0	0	(335)	0	0	0	0	(335)
Cash dividends paid to shareholders	0	0	0	0	(1,001)	0	0	0	(1,001)
Purchases of shares of common stock for treasury	0	0	(3,320)	0	0	0	0	0	(3,320)
Reissuance of shares of common stock from treasury	0	0	5,530	431	0	0	0	0	5,961
Common stock issued	304	0	0	3,737	0	0	0	0	3,737
Distributions to noncontrolling interest holders	0	0	0	0	0	0	(900)	0	(900)
Unrealized gain on cash flow hedge, net of tax	0	0	0	0	0	(39)	0	(39)	(39)
Capital contributions from noncontrolling interest holders	0	0	0	0	0	0	8,754	0	8,754
Balance, June 30, 2011	22,374	\$ 22	\$ 0	\$ 123,689	\$ 8,751	\$ (102)	\$ 21,915	\$ 40,828	\$ 154,275

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30,	
	2011	2010
Cash flows from operating activities:		
Net income	\$ 7,661	\$ 5,034
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Provision for loan losses	354	455
Accretion of deferred loan fees	(762)	(745)
Amortization of liquidity discount, net	8,533	686
Gain on sale and payoff of loans	(13,608)	(19,242)
Change in other investments:		
Fair value	(4,618)	(1,002)
Incentive fees reinvested in general partnership interests	(2,410)	(530)
Impairment loss on purchased management contract	700	0
Depreciation and amortization of fixed assets	337	337
Stock-based compensation expense	1,026	2,317
Deferred income taxes	2,302	3,770
Net change in operating assets and liabilities:		
Decrease in interest receivable	87	46
(Increase) in receivables	(925)	(1,540)
(Increase) in marketable securities	(1,812)	(9,237)
Decrease (increase) in restricted cash (excluding restricted cash reserved for lending activities), deposits and other assets	6,781	(7,584)
Increase in marketable securities sold, but not yet purchased	1,950	8,861
(Decrease) increase in interest payable	(16)	106
(Decrease) in accrued compensation and other liabilities	(10,139)	(15,187)
Net cash used in operating activities	(4,559)	(33,455)
Cash flows from investing activities:		
Purchases of fixed assets	(921)	(641)
Purchases of other investments	(10,126)	(20,573)
Sales of other investments	4,576	25,150
Funding of loans collateralizing asset-backed securities issued	(160,044)	(164,579)
Funding of loans held for investment	0	(250)
Sale and payoff of loans collateralizing asset-backed securities issued	148,723	120,530
Principal receipts on loans collateralizing asset-backed securities issued	16,706	47,057
Principal receipts on loans held for investment	813	150
Net change in restricted cash reserved for lending activities	(5,410)	(3,209)
Net cash (used in) provided by investing activities	(5,683)	3,635

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

Cash flows from financing activities:		
Proceeds from issuance of note payable	0	5,000
Repayment of note payable	(2,619)	(868)
Repayment of asset-backed securities issued	0	(3,475)
Cash dividends paid to stockholders	(1,001)	(547)
Purchases of shares of common stock for treasury	(3,320)	(7,242)
Capital contributions of noncontrolling interest holders	8,748	4,149
Distributions to noncontrolling interest shareholders	(900)	0
Excess tax benefit related to stock-based compensation	(335)	(279)
Net cash provided by (used in) financing activities	573	(3,262)
Net decrease in cash and cash equivalents	(9,669)	(33,082)
Cash and cash equivalents, beginning of period	71,114	75,680
Cash and cash equivalents, end of period	\$ 61,445	\$ 42,598
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	\$ 2,594	\$ 2,461
Cash paid during the period for taxes	\$ 5,598	\$ 1,376
Non-cash investing and financing activities:		
Reissuance of shares of common stock from treasury related to vesting of restricted stock units and exercises of stock options	\$ 5,530	\$ 4,889
See accompanying notes to consolidated financial statements.		

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JMP GROUP INC.

Notes to Consolidated Financial Statements

June 30, 2011

(Unaudited)

1. Organization and Description of Business

JMP Group Inc., together with its subsidiaries (collectively, the Company), is an independent investment banking and asset management firm headquartered in San Francisco, California. JMP Group Inc. completed its initial public offering on May 16, 2007, and also completed a corporate reorganization in connection with the initial public offering. The Company conducts its brokerage business through JMP Securities LLC (JMP Securities), its asset management business through Harvest Capital Strategies LLC (HCS), its corporate credit business through JMP Credit Corporation (JMP Credit) and JMP Credit Advisors LLC (JMPCA), and certain principal investments through JMP Capital LLC (JMP Capital). All of the above entities are wholly-owned subsidiaries. JMP Securities is a U.S. registered broker-dealer under the Securities Exchange Act of 1934, as amended, and is a member of the Financial Industry Regulatory Authority (FINRA). JMP Securities operates as an introducing broker and does not hold funds or securities for, or owe any money or securities to, customers and does not carry accounts for customers. All customer transactions are cleared through another broker-dealer on a fully disclosed basis. HCS is a registered investment advisor under the Investment Advisers Act of 1940, as amended, and provides investment management services for sophisticated investors in investment partnerships and other entities managed by HCS. Effective April 7, 2009, through its majority-owned subsidiary JMP Credit, the Company completed the acquisition of 100% of the membership interests of Cratos Capital Partners, LLC (changed its name to JMP Credit Advisors LLC on July 12, 2010) and its subsidiaries, including Cratos Capital Management, LLC (which collectively, Cratos), a manager of collateralized loan obligations (CLO), together with certain securities of Cratos CLO I, Ltd. (Cratos CLO). See Note 2 for further details regarding the ownership of Cratos CLO.

2. Summary of Significant Accounting Policies

Basis of Presentation

These consolidated financial statements and related notes are unaudited and have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. These consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and notes thereto included in its annual report on Form 10-K for the year ended December 31, 2010. These consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) that are, in the opinion of management, necessary for the fair statement of the results for the interim periods. The results of operations for any interim period are not necessarily indicative of the results to be expected for a full year.

The consolidated accounts of the Company include the wholly-owned subsidiaries, JMP Securities, HCS, JMP Capital, JMP Credit, JMPCA, and the partially-owned subsidiaries Harvest Growth Capital LLC (HGC) (effective April 1, 2010) and Cratos CLO. All material intercompany accounts and transactions have been eliminated in consolidation.

Harvest Mortgage Opportunities Partners (HMOP), a hedge fund managed by HCS, had been consolidated from May 1, 2009 through December 31, 2010. On December 31, 2010, HMOP was liquidated, with all of its partners redeeming their interests as of that date. The assets of HMOP were distributed to its partners in January 2011.

The Company follows the authoritative accounting guidance for the consolidation of variable interest entities (VIEs). Such guidance applies to VIEs, which are entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. When the Company enters into a transaction with a VIE, the Company determines if it is the primary beneficiary of the VIE by performing a qualitative analysis of the VIE that includes a review of, among other factors, its capital structure, contractual terms, related party relationships, the Company's fee arrangements and the design of the VIE. The Company performed this analysis for Cratos CLO and concluded that Cratos CLO is a VIE and that the Company, which manages the CLO and owns approximately 94% of the subordinated notes in the CLO, is deemed the primary beneficiary. As a result, the Company consolidates the assets and liabilities of the CLO and the underlying loans owned by the CLO entity are shown on our Consolidated Statements of Financial Condition under loans collateralizing asset-backed securities issued and the asset-backed securities (ABS) issued to third parties are shown under asset-backed securities issued. See Note 6 and Note 10 for the information pertaining to the loans owned and ABS issued by Cratos CLO, respectively.

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HCS currently manages several asset management funds, which are structured as limited partnerships, and is the general partner of each. In assessing whether or not to consolidate these funds, the Company follows the accounting guidance on determining whether a general partner controls a limited partnership. Such guidance provides that the presumption that the general partner controls the limited partnership may be overcome if the limited partners have substantive kick-out rights. Except for HMOP and HGC, the partnership agreements for these funds provide for the right of the limited partners to remove the general partners by a simple majority vote of the non-affiliated limited partners. Because of these substantive kick-out rights, the Company, as the general partner, does not control these funds, and therefore does not consolidate them except for HGC, and prior to December 31, 2010, HMOP. The Company accounts for its investments in these non-consolidated funds under the equity method of accounting. In December 2009, the accounting guidance on consolidation was amended to improve the financial reporting by entities involved in VIEs. In February 2010, the consolidation requirements under the amended accounting guidance were indefinitely deferred for a reporting entity's interest in entities that have the attributes of an investment company or for which it is industry practice to apply the specialized industry accounting guidance for investment companies. The Company's investments in the above asset management funds qualify for the deferral, and therefore the new consolidation requirements did not impact our accounting for these funds. If the deferral were to be removed, the Company would be required to evaluate these funds under the new accounting guidance, and based on such evaluation, some if not all of the funds may require consolidation.

Noncontrolling interest on the Consolidated Statements of Financial Condition at June 30, 2011 and December 31, 2010 relate to the interest of third parties in Cratos CLO and HGC, partially-owned subsidiaries consolidated in our financial statements. 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 this transaction, the Company's ownership of JMP Credit increased from approximately 93% to 100% and the Company's ownership of Cratos CLO decreased from 100% to approximately 94% effective August 6, 2010.

JMP Realty Trust (JMPRT) was a real estate investment trust that was formed in June 2006. As of December 31, 2008, the Company owned 49.5% of JMPRT and certain employees owned 20.1%. Because of its ownership and management position, the Company consolidated JMPRT and recorded a noncontrolling interest through December 31, 2008. On January 2, 2009, all of the assets and liabilities within JMPRT were transferred to HMOP. HMOP was a Delaware limited partnership organized for the purposes of investing in real estate-related assets which may include investments in residential or commercial mortgages or loans, real estate and other assets, loans and participation in loans of all types, other specialty mortgage products, and securities. HCS was the general partner of HMOP. Because of 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 effective May 1, 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.

On July 31, 2009, JMP Capital received 100% of the membership interest in LSC III, LLC (LSC) in full satisfaction of a \$2.4 million non-revolving credit note. LSC is an investment partnership and owns shares of common and preferred stock of two privately-held companies. LSC subsequently changed its name to Harvest Growth Capital LLC (HGC) and amended its limited liability company agreement. Under the amended agreement, HGC appointed HCS as the manager, accepted new members and launched on April 1, 2010 as a new private equity fund. JMP Capital retained an interest in one privately-held company which was valued at \$0.6 million as of April 1, 2010. The members of HGC do not have substantive kick-out rights to remove HCS as manager and therefore HCS is deemed to control HGC. As a result, the Company consolidates HGC in its consolidated financial statements.

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On January 18, 2008, JMP Group Inc. and certain unconsolidated affiliates made an investment in Series A Cumulative Redeemable Convertible preferred stock of New York Mortgage Trust, Inc. (NYMT), a publicly traded real estate investment trust engaged in the investment management of mortgage-backed securities and high credit quality residential adjustable rate mortgage loans. Such investment by JMP Group Inc. and affiliated entities was \$20.0 million in total, comprised of \$5.0 million by JMP Group Inc., \$5.0 million by certain funds managed by HCS, and \$10.0 million by JMPRT. JMPRT's investment in NYMT was transferred to HMOP on January 2, 2009. In addition, JMP Group Inc. invested \$4.5 million in the common stock of NYMT on February 14, 2008 via a private investment in public equity (PIPE) transaction. The Series A Preferred Stock was convertible into shares of NYMT's common stock based on a conversion price of \$8.00 per share of common stock, which represents a conversion rate of two and one-half (2 1/2) shares of common stock for each share of Series A Cumulative Redeemable Convertible preferred stock. The Series A Cumulative Redeemable Convertible preferred stock was scheduled to mature on December 31, 2010. JMP Group Inc. also 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 matured and were redeemed at a price per share of \$20.00 for a total of \$20.0 million. Under the amended advisory agreement, in order to maintain certain rights under the agreement we are required to maintain 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 June 30, 2011 and December 31, 2010, the Company had an investment in NYMT's common stock of \$10.7 million and \$10.0 million, respectively, which represented 15.2% of NYMT's outstanding shares of common stock at both periods. Because of its current ownership and management position, the Company does not consolidate NYMT.

Revision to 2010 Consolidated Financial Statements

In preparing the consolidated financial statements for the quarter ended March 31, 2011, the Company discovered an error that impacted the company's previously issued consolidated financial statements for the second quarter of 2010, the third quarter of 2010 and for the year ended December 31, 2010. The net after tax effect of this error together with errors previously identified, was an understatement of net income of \$0.7 million for the year ended December 31, 2010 (\$31,000 for the second quarter of 2010, \$384,000 for the third quarter of 2010 and \$327,000 for the fourth quarter of 2010). The adjustments were primarily related to the newly identified error, a difference in the determination of taxable income, causing a \$0.6 million impact to income tax expense for the year ended December 31, 2010 (\$31,000 for the second quarter of 2010, \$397,000 for the third quarter of 2010 and \$148,000 for the fourth quarter of 2010.) The Company evaluated these errors and concluded that they did not, individually or in the aggregate, result in a material misstatement of the company's previously issued consolidated financial statements. However, the Company also concluded that the effect of correcting the errors in the first quarter of 2011 would have been misleading to the users of the financial statements for the quarter ended March 31, 2011 and expected results for the year ended December 31, 2011. Accordingly, the Company has determined to revise, in this report and future filings, its previously reported Consolidated Statements of Financial Condition as of June 30, 2010, September 30, 2010 and December 31, 2010 and its Consolidated Statements of Operations and Changes in Equity for the periods ended June 30, 2010, September 30, 2010 and December 31, 2010 to adjust for these errors. The effect of this revision had no impact on our Consolidated Statement of Cash Flows.

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A summary of the revisions to the Consolidated Financial Statements as of June 30, 2010, September 30, 2010 and December 31, 2010 is as follows:

**As Previously
Reported** **Adjustment** **As Revised**

(In thousands, except per common share data)

Consolidated Statements of Operation

	For the Three Months Ended June 30, 2010		
Income tax expense	\$ 2,133	\$ (31)	\$ 2,102
Net income	2,983	31	3,014
Net income attributable to JMP Group Inc.	2,185	31	2,216
Net income attributable to JMP Group Inc. per common share:			
Basic	\$ 0.10	\$ 0.00	\$ 0.10
Diluted	\$ 0.10	\$ 0.00	\$ 0.10

	For the Six Months Ended June 30, 2010		
Income tax expense	\$ 3,522	\$ (31)	\$ 3,491
Net income	5,003	31	5,034
Net income attributable to JMP Group Inc.	3,903	31	3,934
Net income attributable to JMP Group Inc. per common share:			
Basic	\$ 0.18	\$ 0.00	\$ 0.18
Diluted	\$ 0.17	\$ 0.01	\$ 0.18

Consolidated Statements of Financial Condition

	As of June 30, 2010		
Deferred tax assets	\$ 41,994	\$ 31	\$ 42,025
Total assets	580,836	31	580,867
Retained earnings	2,203	31	2,234
Total JMP Group Inc. stockholders' equity	121,276	31	121,307
Total equity	131,541	31	131,572
Total liabilities and equity	580,836	31	580,867

Consolidated Statements of Changes in Equity

	For the Six Months Ended June 30, 2010		
Net Income	\$ 3,903	\$ 31	\$ 3,934
Retained Earnings- Balance, June 30, 2010	2,203	31	2,234

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	As Previously Reported	Adjustment	As Revised
<i>(In thousands, except per common share data)</i>			
Consolidated Statements of Operation			
	For the Three Months Ended September 30, 2010		
Interest income	\$ 11,525	\$ (23)	\$ 11,502
Net interest income	2,986	(23)	2,963
Total net revenues after provision for loan losses	32,681	(23)	32,658
Income before income tax expense	4,579	(23)	4,556
Income tax expense	1,943	(407)	1,536
Net income	2,636	384	3,020
Net income attributable to JMP Group Inc.	1,431	384	1,815
Net income attributable to JMP Group Inc. per common share:			
Basic	\$ 0.07	\$ 0.01	\$ 0.08
Diluted	\$ 0.06	\$ 0.02	\$ 0.08
	For the Nine Months Ended September 30, 2010		
Interest income	\$ 36,106	\$ (23)	\$ 36,083
Net interest income	11,017	(23)	10,994
Total net revenues after provision for loan losses	100,745	(23)	100,722
Income before income tax expense	13,103	(23)	13,080
Income tax expense	5,464	(438)	5,026
Net income	7,639	415	8,054
Net income attributable to JMP Group Inc.	5,334	415	5,749
Net income attributable to JMP Group Inc. per common share:			
Basic	\$ 0.25	\$ 0.02	\$ 0.27
Diluted	\$ 0.24	\$ 0.02	\$ 0.26
Consolidated Statements of Financial Condition			
	As of September 30, 2010		
Deferred tax assets	\$ 37,727	\$ 438	\$ 38,165
Total assets	603,303	438	603,741
Other liabilities	28,289	23	28,312
Total liabilities	470,779	23	470,802
Retained earnings	753	415	1,168
Total JMP Group Inc. stockholders' equity	122,124	415	122,539
Total equity	132,524	415	132,939
Total liabilities and equity	603,303	438	603,741
Consolidated Statements of Changes in Equity			
	For the Nine Months Ended September 30, 2010		
Net Income	\$ 5,334	\$ 415	\$ 5,749
Retained Earnings - Balance, September 30, 2010	753	415	1,168

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	As Previously Reported	Adjustment	As Revised
<i>(In thousands, except per common share data)</i>			
Consolidated Statements of Operation			
	For the Year Ended December 31, 2010		
Investment banking revenues	\$ 45,519	\$ 58	\$ 45,577
Non-interest revenues	134,507	58	134,565
Interest income	45,209	(47)	45,162
Net interest income	11,522	(47)	11,475
Total net revenues after provision for loan losses	144,702	11	144,713
Travel and business development	3,401	46	3,447
Administration	5,767	(15)	5,752
Professional fees	3,380	(300)	3,080
Total non-interest expenses	123,997	(269)	123,728
Income before income tax expense	20,705	280	20,985
Income tax expense	9,039	(462)	8,577
Net income	11,666	742	12,408
Net income attributable to JMP Group Inc.	8,861	742	9,603
Net income attributable to JMP Group Inc. per common share:			
Basic	\$ 0.41	\$ 0.03	\$ 0.44
Diluted	\$ 0.40	\$ 0.03	\$ 0.43

Consolidated Statements of Financial Condition

	As of December 31, 2010		
Investment banking fees receivable	\$ 9,706	\$ 58	\$ 9,764
Deferred tax assets	32,542	(35)	32,507
Other assets	8,008	(10)	7,998
Total assets	637,852	13	637,865
Other liabilities	34,172	(729)	33,443
Total liabilities	496,542	(729)	495,813
Retained earnings	3,954	742	4,696
Total JMP Group Inc. stockholders' equity	129,854	742	130,596
Total equity	141,310	742	142,052
Total liabilities and equity	637,852	13	637,865

Consolidated Statements of Changes in Equity

	For the Year Ended December 31, 2010		
Net Income	\$ 8,861	\$ 742	\$ 9,603
Retained Earnings - Balance, December 31, 2010	3,954	742	4,696
<i>Use of Estimates</i>			

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

Table of Contents*Revenue Recognition**Investment Banking Revenues*

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

Brokerage Revenues

Brokerage revenues consist of (i) commissions resulting from equity securities transactions executed as agent or principal and are recorded on a trade date basis, (ii) related net trading gains and losses from market making activities and from the commitment of capital to facilitate customer orders and (iii) fees paid for equity research. The Company currently generates revenues from research activities through three types of arrangements. First, through what is commonly known as a "soft dollar" practice, a portion of a client's commissions may be compensation for the value of access to our research. Those commissions are recognized on a trade date basis, as the Company has no further obligation. Second, a client may issue a cash payment directly to the Company for access to research. Third, the Company has entered into certain commission-sharing or tri-party arrangements in which institutional clients execute trades with a limited number of brokers and instruct those brokers to allocate a portion of the commission to the Company or to issue a cash payment to the Company.

In these commission-sharing or tri-party arrangements, the amount of the fee is determined by the client on a case-by-case basis and agreed to by the Company. An invoice is then sent to the payor. For the second and third type of arrangements, revenue is recognized and an invoice is sent once an arrangement exists, access to research has been provided, a specific amount is fixed or determinable, and collectibility is reasonably assured. None of these arrangements obligate clients to a fixed amount of fees for research, either through trading commissions or direct or indirect cash payments, nor do they obligate the Company to provide a fixed quantity of research or execute a fixed number of trades. Furthermore, the Company is not obligated under any arrangement to make commission payments to third parties on behalf of clients.

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

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, but 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.

Principal Transactions

Principal transaction revenues include realized and unrealized net gains and losses resulting from our principal investments in equity and other securities for the Company's account and in equity-linked warrants received from certain investment banking assignments, as well as limited partner investments in private funds managed by third parties, our investment in NYMT and interest rate cap. Unrealized gain (loss) on interest rate cap was recorded in principal transaction revenues through June 30, 2010. Effective July 1, 2010, such gain (loss) is recorded in other comprehensive income (loss). See Note 4 and Note 9 for more information on the interest rate cap. Principal transaction revenues also include earnings (or losses) attributable to investment partnership interests held by our asset management subsidiary, HCS, which are accounted for using the equity method of accounting. 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.

The Company's principal transaction revenues for these categories for the three and six month periods ended June 30, 2011 and 2010 are as follows:

<i>(In thousands)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Equity and other securities	\$ 1,472	\$ (50)	\$ 4,645	\$ 1,295
Warrants and other investments	243	(43)	365	174
Investment partnerships	839	504	1,174	364
Total principal transaction revenues	\$ 2,554	\$ 411	\$ 6,184	\$ 1,833

Table of Contents*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 our carrying value of the loan.

Interest Income

Interest income primarily relates to income earned on loans. Interest income on loans is comprised of the stated coupon as a percentage of the face amount receivable as well as accretion of accretable or purchase discounts and deferred fees, see *Loans held for investment* and *Loans collateralizing asset-backed securities issued* for more information. 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 relates to expense incurred on asset-backed securities issued and note payable. Interest expense on asset-backed securities issued is the stated coupon as a percentage of the principal amount payable as well as amortization of liquidity discount which was recorded at the acquisition date of Cratos, see *Asset-backed securities issued* for more information. Interest expense is recorded on the accrual basis in accordance with the terms of the respective asset-backed securities issued and note payable.

Cash and Cash Equivalents

The Company considers highly liquid investments with original maturities or remaining maturities upon purchase of three months or less to be cash equivalents. The Company holds cash in financial institutions in excess of the FDIC insured limits. The Company periodically reviews the financial condition of the financial institutions and assesses the credit risk.

Restricted Cash and Deposits

Restricted cash and deposits include principal and interest payments that are collateral for the asset-backed securities issued by Cratos CLO. They also include proceeds from short sales deposited with brokers that cannot be removed unless the securities are delivered, cash collateral supporting standby letters of credit issued by JMP Credit, cash on deposit for operating leases, and cash on deposit with JMP Securities clearing broker. In addition, as of December 31, 2010, restricted cash and deposits included cash distributions payable to noncontrolling interest holders of HMOP of \$10.5 million. HMOP was liquidated on December 31, 2010, with all of its partners redeeming their interests as of that date.

Restricted cash consisted of the following at June 30, 2011 and December 31, 2010:

<i>(In thousands)</i>	June 30, 2011	December 31, 2010
Principal and interest payments held as collateral for asset-backed securities issued	\$ 28,879	\$ 23,442
Cash collateral supporting standby letters of credit	248	379
Cash collateral supporting indemnity agreement (Note 8)	1,000	1,000
Proceeds from short sales	12,619	10,669
Cash distributions payable to noncontrolling interest holders	0	10,514
Deposit with clearing broker	255	255
Deposits for operating leases	1,128	1,459
	\$ 44,129	\$ 47,718

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Receivable from Clearing Broker

The Company clears customer transactions through another broker-dealer on a fully disclosed basis. At both June 30, 2011 and December 31, 2010, the receivable from clearing broker consisted solely of commissions related to securities transactions.

Investment Banking Fees Receivable

Investment banking fees receivable include receivables relating to the Company's investment banking or advisory engagements. The Company records an allowance for doubtful accounts on these receivables on a specific identification basis. The allowance for doubtful accounts related to investment banking fees receivable were zero at June 30, 2011 and December 31, 2010.

Fair Value of Financial Instruments

The Company adopted amended accounting principles related to fair value measurements as of January 1, 2008. The amendment establishes a consistent framework for measuring fair value in accordance with GAAP and expands disclosures with respect to fair value measurements. The amendment applies to all financial instruments that are being measured and reported on a fair value basis. This includes those items currently reported in marketable securities owned, at fair value, other investments and marketable securities sold, not yet purchased, at fair value on the Consolidated Statements of Financial Condition. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 4 for the disclosures related to the fair value of our marketable securities and other investments.

Most of the Company's financial instruments, other than loans collateralizing asset-backed securities issued, loans held for investment, asset-backed securities issued and investment in HuaMei Capital Company, Inc. (redeemed in December 2010), Sanctuary Wealth Services LLC, and a commercial mortgage originator sponsored by JMP Capital are recorded at fair value or amounts that approximate fair value. See Note 4 for the description of our investments in HuaMei Capital Company, Inc., Sanctuary Wealth Services LLC and a commercial mortgage originator sponsored by JMP Capital.

Marketable securities owned, other investments at fair value and marketable securities sold, but not yet purchased are stated at fair value, with related changes in unrealized appreciation or depreciation reflected in the line item principal transactions in the accompanying Consolidated Statements of Operations.

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

Marketable securities owned and securities sold, but not yet purchased, consist of U.S. listed and over-the-counter (OTC) equity securities. Other investments include investments in private investment funds managed by the Company or its affiliates and an investment in a private investment fund managed by a third party. Such investments held by non-broker-dealer entities are accounted for under the equity method based on the Company's share of the earnings (or losses) of the investee. The financial position and operating results of the private investment funds are generally determined on an estimated fair value basis. Generally, securities are valued (i) at their last published sale price if they are listed on an established exchange or (ii) if last sales prices are not published, at the highest closing bid price (for securities held long) and the lowest closing asked price (for short positions) as recorded by the composite tape system or such principal exchange, as the case may be. Where the general partner determines that market prices or quotations do not fairly represent the value of a security in the investment fund's portfolio (for example, if a security is a restricted security of a class that is publicly traded) the general partner may assign a different value. The general partner will determine the estimated fair value of any assets that are not publicly traded.

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Also included in other investments are warrants on public and private common stock, private equity securities owned by HGC and JMP Capital, investments in private companies sponsored by HCS and JMP Capital and an interest rate cap derivative instrument. The warrants on public and private common stock are generally received as a result of investment banking transactions. Such warrants are fair valued at the date of issuance and marked-to-market as of each reporting period using the Black-Scholes Options Valuation methodology. The fair value of the private equity securities owned by HGC and JMP Capital is determined by the Company using comparable public company metrics discounted for private company market illiquidity. The interest rate cap derivative instrument fair value is determined from counterparty price quotations. The investments in private companies sponsored by HCS and JMP Capital are carried at cost and evaluated for impairment on a quarterly basis.

The Company follows the authoritative guidance included in GAAP on the fair value option which provides companies with a choice to report selected financial assets and financial liabilities at fair value. The election to use the fair value option is available at specified election dates, such as when an entity first recognizes a financial asset or financial liability or upon entering into a firm commitment. Subsequent changes in fair value must be recorded in the Consolidated Statements of Operations.

The Company received dividends of \$0.3 million and \$0.5 million during the three months ended June 30, 2011 and 2010 respectively, on NYMT stock, which were recorded in net dividend income on our Consolidated Statements of Operations. The Company received dividends on NYMT stock of \$0.6 million and \$1.1 million during the six months ended June 30, 2011 and 2010 respectively, which were recorded in net dividend income on our Consolidated Statements of Operations. For the three months ended June 30, 2011 and 2010, the Company recorded unrealized gain of \$0.5 million and unrealized loss of \$0.5 million on the investments in NYMT. For the six months ended June 30, 2011 and 2010, the Company recorded unrealized gain of \$0.7 million and loss of \$0.3 million on the investments in NYMT. The unrealized gains and losses on our investments in NYMT are reported in principal transactions in the Consolidated Statements of Operations.

Derivative Financial Instruments

The Company has entered into a derivative contract in order to hedge the interest rate exposure of its short-term and long-term borrowings. Currently, the Company does not enter into derivative contracts for any other purposes. Derivative financial instruments are recorded in the Consolidated Statements of Financial Condition at fair value. At the inception of the contract, the Company designated and documented the derivative contract as a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge). For this cash flow hedge, the Company records changes in the fair value of the derivative to the extent that it is effective in other comprehensive (loss) income and subsequently reclassifies these changes in fair value to net income in the same period(s) that the hedged transaction affects earnings. Such reclassification from other comprehensive income (loss) to earnings is recorded in the same financial statement category as the hedged item. The Company formally documents at inception its hedge relationships, including identification of the hedging instruments and the hedged items, its risk management objectives, strategy for undertaking the hedge transaction and the Company's evaluation of effectiveness of its hedged transactions. Periodically, the Company also formally assesses whether the derivative designated in each hedging relationship is expected to be and has been highly effective in offsetting changes in cash flows of the hedged item using the dollar offset method. If the Company determines that a derivative is not highly effective as a hedge, it discontinues hedge accounting.

Loans

Accounting guidance requires that the Company present and disclose certain information about its financing receivables by portfolio segment and/or by class of receivables. A portfolio segment is defined as the level at which an entity develops and documents a systematic methodology to determine the allowance for credit losses. A class of financing receivables is defined as the level of information (below a portfolio segment) that enables a reader to understand the nature and extent of exposure to credit risk arising from financing receivables. The Company's portfolio segments are loans held for investment and loans collateralizing asset-backed securities issued. We have treated the loans held for investments segment as a single class given the small size of the loan portfolio. The classes within the loans collateralizing asset-backed securities issued portfolio segment are Asset Backed Loan (ABL), ABL stretch, Cash Flow and Enterprise Value.

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Loans Held for Investment

Loans held for investment are carried at their unpaid principal balance, net of any allowance for credit losses or deferred loan origination or commitment fees. For loans held for investment, we establish and maintain an allowance for credit losses based on management's estimate of credit losses in our loans as of each reporting date. The Company records the allowance against loans held for investment on a specific identification basis. Loans are charged off against the reserve for credit losses if the principal is deemed not recoverable within a reasonable timeframe. Loan origination and commitment fees are deferred and recognized into interest income in the Consolidated Statements of Operations over the life of the related loan. The Company does not accrue interest on loans which are in default for more than 90 days and loans for which we expect full principal payments may not be received. When loans are placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Any reversals of income from previous years are recorded against the allowance for loan losses. When the Company receives a cash interest payment on a non-accrual loan, it is applied as a reduction of the principal balance. Non-accrual loans are returned to accrual status when the borrower becomes current as to principal and interest and has demonstrated a sustained period of payment performance. The amortization of loan fees is discontinued on nonaccrual loans. The Company applies the above nonaccrual policy consistently to all loans classified as loans held for investment without further disaggregation. Loans that are deemed to be uncollectible are charged off and the charged-off amount is deducted from the allowance.

Loans Collateralizing Asset-Backed Securities Issued

Loans collateralizing asset-backed securities issued are commercial loans securitized and owned by Cratos CLO. Loans acquired through the acquisition and resulting consolidation of Cratos were recorded at their fair value as of the acquisition date. Any unamortized deferred fees or costs related to the loans that existed prior to the acquisition were written off at that date.

For those loans deemed impaired as of the date of the acquisition, the total discount from outstanding principal balance to fair value consists of a nonaccretable credit discount and in most cases an accretable liquidity (or market value) discount. For the remaining loans acquired through the purchase of Cratos, any discounts to fair value were recorded as accretable liquidity discounts as they were not attributable to credit impairment. For both types of loans, the accretable portion of the discount is recognized into interest income as an adjustment to the yield of the loan over the contractual life of the loan using the interest method. For those loans deemed impaired as of the date of the acquisition, such accretion is discontinued when the net realizable value becomes equal or less than the carrying value. For the remaining loans acquired through the purchase of Cratos, such accretion is discontinued when the loan becomes impaired.

The Company continues to estimate the cash flows expected to be collected over the life of the loans acquired through the purchase of Cratos. If, upon subsequent evaluation, the Company believes it is unable to collect all cash flows expected at the acquisition date plus additional cash flows expected to be collected arising from changes in the estimate after the acquisition, the loan is considered impaired. Loans considered impaired at the acquisition date of Cratos continue to be assessed in accordance with the authoritative guidance under GAAP on loan impairment. If, based on current information and events, it is probable that there is a significant increase in cash flows previously expected to be collected or if actual cash flows are significantly greater than cash flows previously expected, the Company will first reduce any remaining credit discounts (including allowances for loan losses) for the loans established after its acquisition for the increase in the present value of cash flows expected to be collected. Then the Company will recalculate the amount of accretable yield for the loan as the excess of the revised cash flows expected to be collected over the sum of (a) the initial investment, less (b) cash collected, less (c) write-downs, plus (d) amount of yield accreted to date. The Company will adjust the amount of accretable yield by reclassification from nonaccretable discount. The adjustment is accounted for as a change in estimate, with the amount of periodic accretion adjusted over the remaining life of the loan. The resulting yield is then used as the effective interest rate in any subsequent accounting.

Loans purchased or originated after the acquisition date of Cratos are stated at the principal amount outstanding net of deferred fees, deferred costs and the allowance for loan losses. Net deferred fees or costs are recognized as an adjustment to interest income over the contractual life of the loans using the interest method. Remaining amounts are recognized into income when the related loans are paid off or sold. Any discount from principal amount of purchased loans is accreted into interest income as a yield adjustment over the contractual life of the loan using the interest method.

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The accrual of interest on loans is discontinued when principal or interest payments are 90 days or more past due or when, in the opinion of management, reasonable doubt exists as to the full collection of principal and/or interest. When loans are placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Any reversals of income from previous years are recorded against the allowance for loan losses. When the Company receives a cash interest payment on a non-accrual loan, it is applied as a reduction of the principal balance. Non-accrual loans are returned to accrual status when the borrower becomes current as to principal and interest and has demonstrated a sustained period of payment performance. The amortization of loan fees is discontinued on nonaccrual loans and may be considered for write-off. Depending on the terms of the loan, a fee may be charged upon a prepayment which is recognized in the period of the prepayment. The Company applies the above nonaccrual policy consistently to all loans classified as loans collateralizing asset-backed securities issued without further disaggregation.

Allowance for Loan Losses

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

Asset-Backed Securities Issued

Asset-backed securities (ABS) represent securities issued to third parties by Cratos CLO in 2007. The Company consolidated Cratos CLO for financial reporting purposes as of the April 7, 2009 acquisition date. At the acquisition date, the ABS were recorded at fair value, which comprised the principal balance outstanding less liquidity discount. The liquidity discount will be amortized into interest expense over the expected remaining lives of the ABS using the interest method.

Fixed Assets

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

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

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

Purchased Management Contract

Purchased management contract relates to the CLO contract the Company purchased from Princeton Advisory Group, Inc. on September 8, 2010 (see Note 8) and is included in other assets on the Consolidated Statements of Financial Condition. The purchased management contract is amortized over its estimated life. The Company tests the purchased management contract for impairment whenever events or changes in circumstances suggest that the asset's carrying value may not be fully recoverable. An impairment loss, calculated as the difference between the estimated fair value and the carrying value of the asset, is recognized if the sum of the estimated undiscounted cash flows relating to the asset is less than the corresponding carrying value.

Income Taxes

The Company recognizes deferred tax assets and liabilities based upon the temporary differences between the financial reporting and tax bases of its assets and liabilities. Valuation allowances are established when necessary to reduce the deferred tax assets when it is more likely than not that a portion or all of the deferred tax assets will not be realized. The Company recognizes a tax benefit from an uncertain position only if it is more likely than not that the position is sustainable, based solely on its technical merits and consideration of the relevant taxing authority's widely understood administrative practices and precedents. If this threshold is met, the Company measures the tax benefit as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement.

Stock-Based Compensation

The Company recognizes compensation cost for stock-based awards at their fair value on the date of grant and records compensation expense over the service period for awards expected to vest. Such grants are recognized as expense, net of estimated forfeitures.

Stock-based compensation includes restricted stock units and stock options granted under the Company's 2007 Equity Incentive Plan, and stock options granted under the Company's 2004 Equity Incentive Plan.

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

Treasury Stock

The Company accounts for treasury stock under the cost method, using an average cost flow assumption, and includes treasury stock as a component of shareholders' equity.

Table of Contents**3. Recent Accounting Pronouncements**

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

ASU 2011-02, Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring. In April 2011, the Financial Accounting Standards Board (the FASB) issued ASU No. 2011-02, which amends the accounting guidance for troubled debt restructurings. The new standard provides additional guidance for creditors in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring constitutes a troubled debt restructuring. The standard sets the effective dates for troubled debt restructuring disclosures required by recent guidance on credit quality disclosures. The standard is effective for interim and annual periods beginning on or after June 15, 2011, and is to be applied retrospectively to modifications occurring on or after the beginning of the annual period of adoption. For purposes of measuring impairments of receivables that are considered impaired as a result of applying the new guidance, the standard should be applied prospectively for the interim or annual period beginning on or after June 15, 2011. The adoption ASU 2011-02 is not expected to have a material impact on the Company's consolidated financial position or results of operations.

ASU 2010-20, Receivables (Topic 310): Disclosure about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. In July 2010, the FASB issued ASU 2010-20 which amends Topic 310 to improve the disclosures that an entity provides about the credit quality of its financing receivables and the related allowance for credit losses. As a result of these amendments, an entity is required to disaggregate by portfolio segment or class certain existing disclosures and provide certain new disclosures about its financing receivables and related allowance for credit losses. The disclosures required by ASU 2010-20 are effective for annual and interim periods ending on or after December 15, 2010 except for the new disclosures about the activity that occurs during a reporting period which are effective for annual and interim periods beginning on or after December 15, 2010. The Company adopted ASU 2010-20 in the fourth quarter of 2010. The adoption of ASU 2010-20 did not have an impact on our consolidated financial position or results of operations.

ASU 2009-17, Consolidation (Topic 810): Improvements to Financial Reporting by Enterprises Involved in Variable Interest Entities. In December 2009, the FASB issued ASU 2009-17 which amends the accounting guidance related to the consolidation of variable interest entities (VIE). The amendments replace the existing guidance on determining which reporting entity, if any, has a controlling financial interest in a VIE with an approach focused on identifying which reporting entity has (1) the power to direct the activities of a VIE that most significantly impact the entity's economic performance and (2) the obligation to absorb losses or the right to receive benefits of the entity that could potentially be significant to the VIE. In February 2010, the FASB issued ASU 2010-10, Consolidation (Topic 810): Amendments for Certain Investment Funds, which indefinitely defers the consolidation requirements of ASU 2009-17 for a reporting entity's interest in an entity that has all the attributes of an investment company or for which it is industry practice to apply the specialized industry accounting guidance for investment companies. The hedge funds and hedge funds of funds managed by HCS qualify for the deferral, and therefore, the Company continues to apply the historical accounting guidance related to the consolidation of VIEs to its investment in such funds. The Company adopted ASU 2009-17 and ASU 2010-10 in the first quarter of 2010, and the adoption of these amendments did not have an impact on our consolidated financial position or results of operations.

ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. In January 2010, the FASB issued ASU 2010-06 which provides amendments to ASC Subtopic 820-10 that will provide more robust disclosures about (1) the different classes of assets and liabilities measured at fair value, (2) the valuation techniques and inputs used, (3) the activity in Level 3 fair value measurements and (4) the transfers between Levels 1, 2, and 3. ASU 2010-06 is effective for annual and interim periods beginning after December 15, 2009, except for the requirement to provide the Level 3 activity on a gross basis which is effective for annual periods beginning after December 15, 2010 and for interim periods within those fiscal years. The Company adopted the standard in the first quarter of 2010, except for the additional disclosures related to the Level 3 activity, which the Company adopted in the first quarter of 2011. The Company's adoption of ASU 2010-06 did not have an impact on our consolidated financial position or results of operations.

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4. Marketable Securities and Other Investments

Other Investments at Fair Value

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

- Level 1 Quoted market prices in active markets for identical assets or liabilities.
- Level 2 Observable market based inputs or unobservable inputs that are corroborated by market data.
- Level 3 Unobservable inputs that are not corroborated by market data.

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

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

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

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

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

Private equity securities: HGC and JMP Capital investment in private companies, determined by the Company using comparable public company metrics discounted for private company market illiquidity.

At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

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The following tables provide fair value information related to the Company's financial assets and liabilities at June 30, 2011 and December 31, 2010:

<i>(In thousands)</i>	Assets at Fair Value as of June 30, 2011			Total
	Level 1	Level 2	Level 3	
Financial instruments owned, at fair value:				
Marketable securities owned:				
Equity securities	\$ 25,560	\$ 0	\$ 0	\$ 25,560
Total marketable securities owned	\$ 25,560	\$ 0	\$ 0	\$ 25,560
Other investments:				
General partner investment in hedge funds	\$ 0	\$ 26,295	\$ 0	\$ 26,295
General partner investment in funds of funds	0	0	105	105
Total general partner investment in funds	0	26,295	105	26,400
Limited partner investment in private equity fund	0	0	3,184	3,184
Warrants	0	0	1,061	1,061
Private equity securities	0	4,715	17,200	21,915
Interest rate cap	35	0	0	35
Total other investments	\$ 35	\$ 31,010	\$ 21,550	\$ 52,595

<i>(In thousands)</i>	Assets at Fair Value as of December 31, 2010			Total
	Level 1	Level 2	Level 3	
Financial instruments owned, at fair value:				
Marketable securities owned:				
Equity securities	\$ 23,748	\$ 0	\$ 0	\$ 23,748
Total marketable securities owned	\$ 23,748	\$ 0	\$ 0	\$ 23,748
Other investments:				
General partner investment in hedge funds	\$ 0	\$ 23,629	\$ 0	\$ 23,629
General partner investment in funds of funds	0	0	102	102
Total general partner investment in funds	0	23,629	102	23,731
Limited partner investment in private equity fund	0	0	3,063	3,063
Warrants	0	0	532	532
Private equity securities	0	0	11,245	11,245
Interest rate cap	101	0	0	101
Total other investments	\$ 101	\$ 23,629	\$ 14,942	\$ 38,672

<i>(In thousands)</i>	Liabilities at Fair Value as of June 30, 2011			Total
	Level 1	Level 2	Level 3	
Financial instruments sold, but not yet purchased, at fair value:				
Marketable securities sold, but not yet purchased	\$ 12,619	\$ 0	\$ 0	\$ 12,619

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<i>(In thousands)</i>	Liabilities at Fair Value as of December 31, 2010			Total
	Level 1	Level 2	Level 3	
Financial instruments sold, but not yet purchased, at fair value:				
Marketable securities sold, but not yet purchased	\$ 10,669	\$ 0	\$ 0	\$ 10,669

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The tables below provide a reconciliation of the beginning and ending balances for the assets at fair value using significant unobservable inputs (Level 3) for the three months ended June 30, 2011 and 2010.

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

<i>(In thousands)</i>	Balance as of March 31, 2010	Purchases	Sales	Total gains (losses) - realized and unrealized included in earnings	Total gains (losses) - realized and unrealized included in other comprehensive income	Transfers in/(out) of Level 3	Balance as of June 30, 2010	Unrealized gains/(losses) included in earnings related to assets still held at reporting date
General partner investment in funds of funds	\$ 3,018	\$ 0	\$ (2,950)	\$ 31	\$ 0	\$ 0	\$ 99	\$ 31
Limited partner investment in private equity fund	2,544	45	0	235	0	0	2,824	235
Limited partner investment in mortgage fund	584	0	(368)	(2)	0	0	214	(2)
Investment in NYMT convertible preferred stock	15,000	0	0	0	0	0	15,000	0
Warrants	233	0	0	(233)	0	0	0	(233)
Private equity securities	2,690	2,443	0	18	0	0	5,151	18
Total Level 3 assets	\$ 24,069	\$ 2,488	\$ (3,318)	\$ 49	\$ 0	\$ 0	\$ 23,288	\$ 49

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The tables below provide a reconciliation of the beginning and ending balances for the assets at fair value using significant unobservable inputs (Level 3) for the six months ended June 30, 2011 and 2010.

<i>(In thousands)</i>	Balance as of December 31, 2010	Purchases	Sales	Total gains (losses) - realized and unrealized included in earnings	Total gains (losses) - realized and unrealized included in other comprehensive income	Transfers in/(out) of Level 3	Balance as of June 30, 2011	Unrealized gains/(losses) included in earnings related to assets still held at reporting date
General partner investment in funds of funds	\$ 102	\$ 0	\$ 0	\$ 3	\$ 0	\$ 0	\$ 105	\$ 3
Limited partner investment in private equity fund	3,063	0	0	121	0	0	3,184	121
Warrants	532	15	0	514	0	0	1,061	514
Private equity securities	11,245	8,342	0	1,736	0	(4,123)	17,200	1,736
Total Level 3 assets	\$ 14,942	\$ 8,357	\$ 0	\$ 2,374	\$ 0	\$ (4,123)	\$ 21,550	\$ 2,374

<i>(In thousands)</i>	Balance as of December 31, 2009	Purchases	Sales	Total gains (losses) - realized and unrealized included in earnings	Total gains (losses) - realized and unrealized included in other comprehensive income	Transfers in/(out) of Level 3	Balance as of June 30, 2010	Unrealized gains/(losses) included in earnings related to assets still held at reporting date
General partner investment in funds of funds	\$ 2,933	\$ 0	\$ (2,950)	\$ 116	\$ 0	\$ 0	\$ 99	\$ 116
Limited partner investment in private equity fund	2,476	36	0	312	0	0	2,824	312
Limited partner investment in mortgage fund	1,147	0	(1,080)	147	0	0	214	(2)
Investment in NYMT convertible preferred stock	15,000	0	0	0	0	0	15,000	0
Private equity securities	2,321	2,443	0	387	0	0	5,151	387
Total Level 3 assets	\$ 23,877	\$ 2,479	\$ (4,030)	\$ 962	\$ 0	\$ 0	\$ 23,288	\$ 813

Purchases and sales of Level 3 assets shown above were either purchased or sold during the period. The amounts were recorded at fair value at the date of the transaction.

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

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

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There were no transfers in/out of Level 1 during the three and six months ended June 30, 2011 and 2010. There was a transfer into Level 2 from Level 3 of \$1.7 million for the three months ended June 30, 2011. There were two transfers into Level 2 from Level 3 of \$4.1 million for the six months ended June 30, 2011, which were a result of the observability of fair value associated with the private equity securities. There were no transfers in/out of Level 2 during the three and six months ended June 30, 2010. In addition, there were no other transfers in/out of Level 3 during the three and six months ended June 30, 2011 and 2010.

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

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Included in other investments are investments in partnerships in which one of the Company's subsidiaries is the investment manager and general partner. The Company accounts for these investments using the equity method as described in Note 2. The Company's share of those investments is included in the tables above. In addition, other investments include warrants, and two investments in funds managed by third parties.

Other Investments

On February 13, 2009, the Company entered into a business arrangement with China Merchants Securities Co. (HK), Ltd., a securities brokerage and investment banking firm, through a \$2.0 million investment in HuaMei Capital Company, Inc. (HuaMei) to expand the Company's investment banking capabilities in China. The Company accounted for its investment in HuaMei under the equity method of accounting within other investments on the Consolidated Statements of Financial Condition. In December 2010, the Company redeemed its investment in HuaMei and received \$2.0 million in cash, resulting in no gain or loss.

On February 11, 2010, the Company made a \$1.5 million investment in Class D Preferred Units of Sanctuary Wealth Services LLC (Sanctuary). Sanctuary provides a turnkey platform that will allow independent wealth advisors to establish an independent advisory business without the high startup costs and regulatory hurdles. The Class D Preferred Units entitle the Company to receive a preferred dividend with units that are convertible into equity of Sanctuary at the option of the Company prior to the maturity date, which is three years from the investment date. The Company carries its investment in Sanctuary at cost within other investments on the Consolidated Statements of Financial Condition and evaluates the investment for impairment on a quarterly basis. During the fourth quarter of 2010, the Company determined that its investment in Sanctuary is fully impaired and recorded an impairment loss of \$1.5 million, which was included in Principal Transactions on the Consolidated Statements of Operations. The carrying value of the Company's investment in Sanctuary was zero at December 31, 2010 and June 30, 2011.

In 2008, the Company made a \$4.2 million loan to a private commercial mortgage originator in the form of a note and warrants. The loan was recorded net of loan loss reserves of \$3.8 million and a deferred loan fee of \$0.2 million at December 31, 2009. On February 10, 2010, the loan note was converted into non-voting preferred equity of a newly formed entity which succeeded to the assets of the borrower. As of the conversion date, the Company determined the fair value of both the loan note and the non-voting preferred equity of the newly formed entity to be zero, and therefore, recognized no gain or loss on the conversion. During the year ended December 31, 2010 and the six months ended June 30, 2011, the Company invested an additional \$0.8 million and \$0.3 million, respectively, in the newly formed entity for the commencement of a new commercial loan origination program. The Company carries its investment in the newly formed entity at cost within other investments on the Consolidated Statements of Financial Condition and evaluates the investment for impairment on a quarterly basis. In the fourth quarter of 2010 and the first half of 2011, the Company determined its investment in the newly formed entity is impaired and recorded a loss of \$0.8 million and \$0.3 million, respectively. The loss is included in principal transactions in the Consolidated Statements of Operations.

Derivative Financial Instruments

On May 29, 2010, the Company entered into an interest rate cap with City National Bank (the Lender) to effectively lock in or fix the interest rate on its revolving line of credit and term loan from July 1, 2010 through maturity. The interest rate cap will allow the Company to receive payments from the Lender in the event that LIBOR plus 2.25% exceeds 3.75%, limiting the interest rate on the outstanding balance of the line of credit and term loan to such rate. On July 1, 2010, the Company designated the interest rate cap as a cash flow hedge of the interest rate risk of a total of \$23.6 million of outstanding borrowings with the Lender. See Note 9 for the information pertaining to the Company's borrowing from the Lender.

The interest rate cap is recorded at fair value in other investments on the Consolidated Statements of Financial Condition, with unrealized gains and losses recorded as other comprehensive income. For the three and six months ended June 30, 2011, the Company recorded \$0 million of other comprehensive loss representing unrealized loss on the interest rate cap. In addition, during the three and six months ended June 30, 2011, \$13,674 and \$27,348 were reclassified from accumulated other comprehensive income into interest expense as amortization of the interest cap.

Table of Contents**5. Loans Held for Investment**

Loans held for investment at June 30, 2011 is comprised of one loan note. At December 31, 2010, loans held for investment also included advances on one non-revolving credit note commitment. Given the small size of this loan portfolio segment, the Company reviews credit quality of the loans within this portfolio segment on a loan by loan basis mainly focusing on the borrower's financial position and results of operations as well as the current and expected future cash flows on the loan.

Non-Impaired Loans

As of December 31, 2010, the Company had a \$0.8 million advance, on a \$1.3 million non-revolving commitment to a public non-traded REIT. The advance currently had an interest rate of 20.0% per annum. The Company determined the credit quality of this loan to be high based on the borrower's financial position, results of operations and payment history. This advance was fully paid in June 2011. As of June 30, 2011 and December 31, 2010, the Company had no unfunded credit commitments.

Impaired Loans

The Company had a loan outstanding at June 30, 2011 and December 31, 2010, which is a participation interest in a loan made by JMPRT to a client during 2007. The loan is collateralized by real estate related assets, and bears interest at the rate of 20.0% per annum, payable monthly in arrears. The principal of the loan was due and payable on December 1, 2007, but was extended until September 2008 for an additional fee at the borrower's option and in connection with a partial repayment. At December 31, 2008, the outstanding principal balance of \$0.8 million was in default and the loan was deemed impaired and was placed on non-accrual status. The Company recorded a loan loss provision of \$0.4 million in the third quarter of 2008, \$0.1 million in the fourth quarter of 2009 and \$0.3 million in the third quarter of 2010. Recovery of the loan is being sought through bankruptcy court proceedings; however, considering the legal cost it expects to incur, the Company believes that any significant recovery is doubtful. The recorded investment, outstanding principal and related allowance balance of the loan were each \$0.8 million at June 30, 2011 and December 31, 2010. No interest income was recorded on this impaired loan for the three and six months ended June 30, 2011 and 2010.

In addition, in the third quarter of 2008, the Company made a \$4.2 million loan to a private commercial mortgage originator in the form of a note and warrants. The loan was placed on non-accrual status on April 1, 2009. Accordingly, the interest payments of \$0.2 million received subsequent to that date were applied to the principal balance, reducing the outstanding principal balance to \$4.0 million at December 31, 2009. At December 31, 2009, the carrying value of the loan was zero, net of loan loss reserves of \$3.8 million and a deferred loan fee of \$0.2 million. On February 10, 2010, the loan note was converted into non-voting preferred equity of a newly formed entity which succeeded to the assets of the borrower. As of the conversion date, the Company determined the fair value of both the loan note and the non-voting preferred equity of the newly formed entity to be zero, and therefore, recognized no gain or loss on the conversion. The Company carries its investment in the newly formed entity at cost within other investments on the Consolidated Statements of Financial Condition (see Note 4).

The following table presents components of loans held for investment, net, on the Consolidated Statements of Financial Condition at June 30, 2011 and December 31, 2010:

<i>(In thousands)</i>	June 30, 2011	December 31, 2010
Loans held for investment	\$ 857	1,670
Allowance for loan losses	(857)	(857)
Total loans held for investment, net	\$ 0	\$ 813

A summary of the activity in the allowance for loan losses for the three and six months ended June 30, 2011 and 2010 was as follows:

<i>(In thousands)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Balance at beginning of period	\$ (857)	\$ (4,285)	\$ (857)	\$ (4,285)
Loans charged off, net of recoveries	0	3,757	0	3,757

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Balance at end of period	\$ (857)	\$ (528)	\$ (857)	\$ (528)
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The Company determined the fair value of loans held for investment to be zero and \$0.8 million as of June 30, 2011 and December 31, 2010, respectively, using anticipated cash flows, discounted at an appropriate market credit adjusted interest rate.

6. Loans Collateralizing Asset-backed Securities Issued

Loans collateralizing asset-backed securities issued are commercial loans securitized and owned by Cratos CLO. The loans consist of those loans within the CLO securitization structure at the acquisition date of Cratos and loans purchased by the CLO subsequent to the Cratos acquisition date. The following table presents the components of loans collateralizing asset-backed securities issued at June 30, 2011 and December 31, 2010:

(In thousands)

June 30,&