JMP Group Inc.
Form 10-K
March 12, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2014

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: 001-302350

JMP Group LLC

(Exact name of registrant as specified in its charter)

Commission File Number: 001-33448

JMP Group Inc.

(Exact name of registrant as specified in its charter)

Delaware	**Delaware**
(State or other jurisdiction of	**(State or other jurisdiction of**
incorporation or organization)	**incorporation or organization)**
47-1632931	**20-1450327**

(I.R.S. Employer Identification No.) **(I.R.S. Employer Identification No.)**

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

(Address of principal executive offices)

(415) 835-8900

(Registrant's telephone number, including area code)

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

Title of Each Class	**Name of Each Exchange on Which Registered**
Shares representing limited liability company interests in JMP Group LLC	**New York Stock Exchange**
JMP Group Inc. 7.25% Senior Notes due 2021	**New York Stock Exchange**
JMP Group Inc. 8.00% Senior Notes due 2023	**New York Stock Exchange**

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

None

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

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

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

This combined form 10-K is separately filed by (i) JMP Group LLC and (ii) JMP Group Inc. JMP Group Inc. meets the conditions set forth in general instruction I(1) (a) and (b) of Form 10-K and is, therefore, filing this form with the reduced disclosure format permitted by such instruction The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant on the last business day of the registrant's most recently completed second fiscal quarter, based upon the closing sale price of the registrant's common stock on June 30, 2014 as reported on The New York Stock Exchange was $102,369,461.

JMP Group LLC shares representing limited liability company interests outstanding as of February 28, 2015: 21,216,258.

JMP Group Inc. shares of common stock outstanding as of February 28, 2015: 100.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement to be delivered to shareholders in connection with the 2015 annual meeting of shareholders to be held in June 2015 are incorporated by reference in this Form 10-K. Such proxy statement will be filed with the U.S. Securities and Exchange Commission (the "SEC") within 120 days of the registrant's fiscal year ended December 31, 2014.

EXPLANATORY NOTE

On January 1, 2015, JMP Group Inc. completed its merger with and into JMP Group LLC, a Delaware limited liability company, with JMP Group LLC as the surviving entity (the "Reorganization Transaction") pursuant to the Agreement and Plan of Merger, dated as of August 20, 2014 by and among JMP Group Inc., JMP Group LLC and JMP Merger Corp. (the "Merger Agreement"). Entry into the Merger Agreement was previously announced by JMP Group Inc. on its current report on Form 8-K filed with the SEC on August 20, 2014. JMP Group LLC had not commenced operations and had no assets or liabilities as of December 31, 2014.

JMP Group LLC filed a current report on Form 8-K on January 2, 2015 (the "January Form 8-K") for the purpose of establishing JMP Group LLC as the successor issuer pursuant to Rule 12g-3(a) under the Securities Exchange Act of

1934, as amended (the “Exchange Act”), and to disclose certain related matters, including the consummation of the Reorganization Transaction. Pursuant to Rule 12g-3(a) under the Exchange Act and in accordance with the filing of the January Form 8-K, the shares representing limited liability company interests in JMP Group LLC, as the successor issuer to JMP Group Inc., were deemed registered under Section 12(b) of the Exchange Act. References to JMP Group Inc. in this Annual Report on Form 10-K that include any period at and after the effectiveness of the Reorganization Transaction shall be deemed to refer to JMP Group LLC. For more information concerning the effects of the Reorganization Transaction and the succession of JMP Group LLC to JMP Group Inc. upon its effectiveness, please see the January Form 8-K.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- the opportunity to grow our investment banking and sales and trading businesses because of the prevalent demand for our services in our four target industries;
- the opportunity to increase our representation of corporate clients as buyers and to grow our mergers and acquisitions and strategic advisory businesses;
- our belief that market conditions in the specialty financial services and real estate industries may work to our advantage if we are able to leverage our expertise to gain new business;
- the performance of our investment banking and sales and trading businesses because of declining demand for our services or a decline in the market for securities of companies in our four target industries;
- the possibility of generating stable or growing investment banking revenues due to our ability to engage in multiple types of transactions;
- our ability to succeed as a strategic advisor due to our ability to structure and execute complex transactions;
- the growth of our mergers and acquisitions and other strategic advisory business derived from our positions as a lead manager or senior co-manager of public and private securities offerings;
- our plans to continue to provide our equity research and sales and trading products and services to small and middle-market companies to benefit institutional investors;
- the characteristics of the asset management business, including its comparatively high margins, the recurring nature of its fee-based revenues, and its dependence on intellectual capital and our belief that this makes the asset

management business less susceptible to competitive threats from larger financial institutions;

- a heightened demand for alternative asset management products and services;
- our ability to increase assets under management and develop new asset management products;
- our plans to generate principal investing opportunities from our investment banking and asset management relationships;
- our ability to attract, incentivize and retain top professionals and to retain valuable relationships with our clients;
- plans to grow our businesses both through internal expansion and through strategic investments, acquisitions, or joint ventures;
- our expectations regarding the impact of the trend toward alternative trading systems and downward pricing pressure in the sales and trading business on trading commissions and spreads;
- the nature of the competition faced in the investment banking and financial services industries and our expectations regarding trends and changes with respect to competing entities;
- our belief that continued future growth will require implementation of enhanced communications and information systems and the training of personnel or the hiring of an outsourced provider to operate such systems;
- the impact of changes in interest rates on the value of interest-bearing assets in which we invest;
- our plans for the use of the principal restricted cash at JMP Credit Corporation (“JMP Credit”) to buy additional loans or pay down collateralized loan obligation (“CLO”) notes;
- that the past performance of our funds are not indicative of our future performance;
- the emergence of investment opportunities that offer attractive risk-adjustment returns on our investable assets;
- our ability to take advantage of market opportunities as they arise in 2015 based on the strength of our capital position and the low level of leverage that we have traditionally employed in our business model;

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- our ability to satisfy our funding needs with existing internal and external financial sources;
- the ability of our funds to raise capital in the long and short term;
- our ability to depend on follow-on offerings, PIPEs and registered direct offerings to generate corporate finance revenues;
- our ability to realize revenues through gain on sale and payoff of loans and gain on repurchase of asset-backed securities;
- our ability to avoid restrictions imposed by the Investment Company Act of 1940 (the "Investment Company Act");;
- that we do not anticipate any tax adjustments that will result in a material adverse affect on the our financial condition;
- the impact of bonus compensation payments to our employees on our cash position;
- the potential for unfunded commitments to expire and their impact on future cash requirements;
- the impact of additional rulemaking by the SEC with respect to soft dollar practices on our brokerage or asset management business;
- our expectations regarding the likelihood of increased scrutiny of financial services firms from regulators;
- the impact of recent pronouncements by the Financial Accounting Standards Board (the "FASB") on our financial position or operations;
- the impact of existing claims and currently known threats against us on our business or financial condition;
- our intention to declare distributions on our shares, our ability to do so without borrowing funds and our expected distribution rate; and
- that we believe that our available liquidity and current level of equity capital will be adequate to meet our liquidity and regulatory capital requirements for the next twelve months.

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

- the impact of multiple book runners, co-managers and multiple financial advisors on our revenues;
- our ability to remain competitive against larger investment banks that provide commercial financing;
- the impact of conditions in the global financial markets, such as the level and volatility of interest rates, investor sentiment, the availability and the cost of credit, the U.S. mortgage market, the U.S. real estate market, volatile energy prices, consumer confidence, unemployment, and geopolitical issues on our business and revenues;
- the potential for volatility and weakness in the equity markets to adversely impact our sales and trading business, investment banking business, and ability to manage exposure to market risks;
- the impact of worsening market conditions on our ability to serve as underwriter or placement agent;
- the potential for uncertainty related to creditworthiness, volatility in the equity markets, and diminished access to financing to impact our merger, acquisition and advisory services;
- our expectations regarding the effect of a market downturn on transaction volume, and therefore, our revenues;
- the impact of securities related write-downs on our securities trading revenues;

- the impact of the inability of companies to repay their borrowings on our principal investments;
- our expectations regarding the impact of bankruptcies on our investment banking revenues;
- the impact of a market downturn on management fees;
- the potential for market declines to lead to an increase in litigation and arbitration claims;
- our ability to pursue business opportunities in an environment of increased legislative or regulatory initiatives;
- the potential effect of governmental fiscal and monetary policy to have a negative impact on our business;
- the impact of any deterioration in the business environment of our target sectors on our revenues;
- our expectation that the ability to recruit and retain professionals impacts our reputation, business, results of operations and financial condition;
- the impact of larger firms on our ability to grow our business;
- the impact of increased competition in the middle-market investment banking space on our market share and revenues;
- the possibility of market and non-market factors to impact our share price;
- fluctuations in our share price related to the performance of our investment banking division;
- the impact of certain institutional, sales and trading client pricing arrangements on brokerage revenues;
- the potential for larger and more frequent capital commitments in our trading and underwriting business to increase losses;
- the potential for increased competition in the asset management sector to affect our ability to raise capital and generate positive economic results;

- the impact of investment performance and redemptions on our asset management business;
- the potential for fluctuations in the global credit markets to affect our CLO investments;
- the impact of principal investment activities on our capital base;
- exposure to volatile and illiquid securities and their impact on our business;
- the ongoing fluctuations in the credit markets, including reduced access to capital and liquidity, and the costs of credit;
- the impact of our increased leverage as a result of our January 2013 offering of 8.00% Senior Notes due 2023 (the "2013 Senior Notes") and the January 2014 offering of 7.25% Senior Notes due 2021 (the "2014 Senior Notes," together with the 2013 Senior Notes, the "Senior Notes");
- the impact of SEC, Financial Industry Regulatory Authority ("FINRA"), and various other self-regulatory organization requirements on our business;
- the potential for risks related to infrastructure and operations to impact our business;
- the potential for increased scrutiny of financial services firms to adversely impact our business;
- the business risks posed by, potential conflicts of interest, employee misconduct, and business partner misconduct; and
- the challenges posed when valuing non-marketable investments.

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

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

Item 1. Business

Overview

JMP Group LLC, together with its subsidiaries, including JMP Group Inc. (collectively, “the Company”, “we” or “us”), is a full-service investment banking and asset management firm. We provide investment banking, sales and trading, and equity research services to corporate and institutional clients, and alternative asset management products and services to institutional investors and high net-worth individuals. In addition, we manage and invest in corporate credit instruments through collateralized loan obligations and direct investments, and we serve as the investment advisor to a business development company under the Investment Company Act.

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

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

The selection of our four target industries, the development of multiple products and services and the establishment of our four revenue-producing business lines—investment banking, sales and trading, equity research and asset management—has created a diversified business model, especially when compared to that of our more specialized competitors. We have been able to balance somewhat volatile revenue streams from our investment banking activities and incentive-based asset management fees with more stable revenue streams from our sales and trading commissions and base asset management fees. In addition, our target industries have historically performed, in certain respects, counter-cyclically to one another, allowing us to win business and generate revenues in various economic and capital markets conditions. In 2009, as part of our ongoing efforts to diversify our asset management business, we acquired a corporate credit business that operates as a manager of CLOs. As of December 31, 2014, we managed three CLOs with approximately $1.1 billion of assets under management. In 2011, we launched a specialty finance company that provides customized financing to small and midsized businesses. In May 2013, this specialty finance company converted into a business development company under the Investment Company Act named Harvest Capital Credit Corporation (“HCC”), and completed an initial public offering. We are serving as HCC’s investment advisor through HCAP Advisors LLC (“HCAP Advisors”), our majority-owned subsidiary.

JMP Group Inc. was incorporated in Delaware in January 2000 and JMP Group LLC was formed in Delaware in August 2014. Our headquarters are located at 600 Montgomery Street, Suite 1100, San Francisco, California 94111, and our telephone number is (415) 835-8900. We completed our initial public offering in May 2007, and the Reorganization Transaction in January 2015 pursuant to which JMP Group Inc. became a wholly owned subsidiary of JMP Group LLC. The Reorganization Transaction was previously announced by JMP Group Inc. on its current report on Form 8-K filed with the SEC on August 20, 2014.

JMP Group LLC filed a current report on Form 8-K on January 2, 2015 (the “January Form 8-K”) for the purpose of establishing JMP Group LLC as the successor issuer pursuant to Rule 12g-3(a) under the Exchange Act, and to disclose certain related matters, including the consummation of the Reorganization Transaction. Pursuant to Rule 12g-3(a) under the Exchange Act and in accordance with the filing of the January Form 8-K, the shares representing limited liability company interests in JMP Group LLC, as the successor issuer to JMP Group Inc., were deemed registered under Section 12(b) of the Exchange Act. References to JMP Group Inc. in this Annual Report on Form 10-K that include any period at and after the effectiveness of the Reorganization Transaction shall be deemed to refer to JMP Group LLC. For more information concerning the effects of the Reorganization Transaction and the succession of JMP Group LLC to JMP Group Inc. upon its effectiveness, please see the January Form 8-K.

Our shares are currently listed on the New York Stock Exchange (the “NYSE”) under the symbol “JMP”.

Principal Business Lines

We conduct our investment banking and institutional brokerage business through JMP Securities LLC (“JMP Securities”), our asset management business through Harvest Capital Strategies LLC (“HCS”) and HCAP Advisors LLC, our corporate credit business through JMP Credit Corporation (“JMP Credit”) and JMP Credit Advisors LLC (“JMP Credit Advisors”), and certain principal investments through JMP Capital LLC (“JMP Capital”).

JMP Securities is a U.S. registered broker-dealer under the Exchange Act, and is a member of FINRA. JMP Securities operates as an introducing broker and does not hold funds or securities for, or owe any money or securities to, customers and does not carry accounts for customers. All customer transactions are cleared through another broker-dealer on a fully disclosed basis. JMP Securities provides equity research, sales and trading to institutional brokerage clients and capital raising and strategic advisory services to corporate clients. As of December 31, 2014, JMP Securities had 187 full-time employees, including 51 in equity research, 46 in sales and trading, 52 in investment banking and 38 in operations and administration.

HCS is a registered investment advisor under the Investment Advisers Act of 1940, as amended, and provides investment management services for sophisticated investors through investment partnerships and other entities managed by HCS. HCAP Advisors is a majority owned subsidiary and manages the investment activities of HCC, a business development company focused on providing customized financing solutions to small to mid-sized companies. During the fiscal year ended December 31, 2014, HCS actively managed a family of six hedge funds, one hedge fund of funds, two private equity funds, and Harvest Capital Credit LLC (“HCC LLC”) (through May 2, 2013). As of December 31, 2014, HCS had 27 full-time employees and HCAP Advisors had six full-time employees.

JMP Credit Advisors LLC is an asset management platform established to underwrite and manage investments in senior secured debt. JMP Credit Advisors LLC and its subsidiaries, including Cratos CDO Management, LLC and Cratos Capital Management, LLC (collectively, “JMP Credit Advisors”), actively manage JMP Credit Advisors CLO I, Ltd. (“CLO I”), JMP Credit Advisors CLO II Ltd (“CLO II”) (effective April 30, 2013) and JMP Credit Advisors CLO III Ltd. (“CLO III”) (effective December 11, 2013). As of December 31, 2014, JMP Credit Advisors had 15 full-time employees.

Investment Banking

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

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

Corporate Finance

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

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

Mergers and Acquisitions and Other Strategic Advisory

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

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

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

Sales and Trading

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

We have established a broad institutional client base rooted in longstanding relationships, which have been developed through a consistent focus on the investment and trading objectives of our clients. Our sales and trading professionals work closely with our equity research staff to provide insight and differentiated investment advice to approximately 500 institutional clients nationwide.

We believe that our sales and trading clients turn to us for timely, informed investment advice. Our equity research features proprietary themes and actionable ideas about industries and companies that are not widely evaluated by many other research providers. Many peer firms focused on small capitalization companies have shut down or have been purchased by other firms. Additionally, with the failure or consolidation of several very large investment banking firms, the amount of market-making activity, liquidity and research coverage provided by broker-dealers for smaller companies has significantly decreased. However, we continue to commit sales and trading resources to smaller-capitalization companies with the belief that institutional investors require and value such specialized knowledge and service.

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

Equity Research

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

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

Financial Services	**Healthcare**	**Real Estate**	**Technology**
• Alternative Asset Managers	• Biotechnology	• Housing	• Cloud Computing Technologies
• Commercial Finance	• Healthcare Facilities	• Land Development	• Communications Equipment
• Consumer Finance	• Healthcare Services	• Leisure	• Digital Media
• Financial Processing and Outsourcing	• Life Science Tools and Diagnostics	• Lodging	• Internet
• Insurance	• Medical Devices and Supplies	• Property Services	• Internet Security
• Investment Banks & Brokers	• Specialty Pharmaceuticals	• REITs	• Software
• Mortgage Finance		• Residential Services	• Wireless Technologies
• Specialty Finance			

As of December 31, 2014, our research department included 23 publishing research analysts providing investment recommendations on 448 public companies. Approximately 38% of the stocks under coverage had market capitalizations of less than $1.0 billion and were divided among our target sectors as follows:

Asset Management

Through HCS and HCAP Advisors, we actively manage a family of five hedge funds, one fund of hedge funds, two private equity funds, and one entity formed to provide loans to small to mid-size U.S. companies. As of December 31, 2014, we had a total of $976.5 million in client assets under management (including assets of employees and portfolio managers) and had an additional $68.9 million of our own capital invested in these vehicles. In addition, as of December 31, 2014, we had invested $11.2 million in funds managed by certain third parties.

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

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

Corporate Credit

JMP Credit Advisors serves as the investment manager to CLO I, CLO II and CLO III which had a diversified portfolio of 566 corporate loans with an aggregate par amount of $1.1 billion and restricted cash available to lend of $39.1 million as of December 31, 2014. For the year ended December 31, 2014, JMP Credit Advisors earned management fees of $4.4 million from CLO I, CLO II and CLO III. As we consolidate the CLOs, in accordance with U.S. Generally Accepted Accounting Principles (“GAAP”), the management fees earned from them are eliminated on consolidation.

HCAP Advisors manages HCC for the purpose of making investments in the form of subordinated debt and, to a lesser extent, senior debt and minority equity investments, primarily in privately-held small to mid-size U.S. companies. As of December 31, 2014, the HCC portfolio consisted of 29 loans with an aggregate par amount of $115.3 million. HCAP Advisors acts as its investment advisor, earning a base management fee equal to 2% annually of the gross assets, excluding cash and cash equivalents, and an incentive fee of 20% of the net operating income assuming an 8% hurdle rate is achieved and 20% of the realized gains net of realized and unrealized loss subject to a three year high water mark. JMP Credit Advisors provides HCC with its administrative services, and is reimbursed its expenses, including the allocable percentage of the compensation costs for the employees performing services under the agreement.

Competition

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

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

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

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

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

Employees

As of December 31, 2014, we had 235 employees, including 84 managing directors. We believe that our managing directors and other professionals have been attracted to our firm because of our entrepreneurial culture, our focused industry coverage and our dedication to providing growth companies and growth investors with exceptional client service, objective advice and innovative solutions. None of our employees are subject to any collective bargaining agreements, and we believe our relationship with our employees to be satisfactory.

Risk Management and Compliance

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

Regulation

As a participant in the financial services industry, we are subject to complex and extensive regulation of most aspects of our business by U.S. federal and state regulatory agencies, self-regulatory organizations and securities exchanges. The laws, rules and regulations comprising the regulatory framework are constantly changing, as are the interpretation and enforcement of existing laws, rules and regulations. The effect of any such changes cannot be predicted and may direct the manner of our operations and affect our profitability.

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

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

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

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

Our asset management subsidiaries, HCS, JMP Credit Advisors, and HCAP Advisors, are SEC-registered investment advisers, and accordingly subject to regulation by the SEC. Requirements under the Investment Advisors Act of 1940 include record-keeping, advertising and operating requirements, and prohibitions on fraudulent activities.

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

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

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

Accounting, Administration and Operations

Our accounting, administration and operations personnel are responsible for financial controls, internal and external financial reporting, compliance with regulatory and legal requirements, office and personnel services, management information and telecommunications systems and the processing of our securities transactions. We use a third-party service provider for payroll processing and servicing of asset-backed securities issued, and our clearing operations are currently performed by J.P. Morgan Clearing Corp. All of our data processing functions are performed by our management information systems personnel. We believe that our continued future growth will require implementation of new and enhanced communications and information systems and training of our personnel or the hiring of an outsourced provider to operate such systems. Any difficulty or significant delay in the implementation or operation of new systems or the training of personnel could harm our ability to manage growth.

Available Information

We are required to file current, annual and quarterly reports, proxy statements and other information required by the Exchange Act, with the SEC. You may read and copy any document we file 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 our SEC filings.

We provide our 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 shareholders, and any amendments to those documents filed or furnished pursuant to the Exchange Act free of charge on the Investor Relations section of our website located at http://www.jmpg.com. These filings will become available as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. From time to time we may use our website as a channel of distribution of material company information.

We also make available, in the Investor Relations section of our website and will provide print copies to shareholders upon request, (i) our corporate governance guidelines, (ii) our code of business conduct and ethics, and (iii) the charters of the audit, compensation, and corporate governance and nominating committees of our board of directors. These documents, as well as the information on our website, are not intended to be part of this Annual Report on Form 10-K and inclusions of our internet address in this Form 10-K are inactive textual references only.

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Item 1A. Risk Factors

Risks Related to Our Business

Our operations and financial results are subject to various risks and uncertainties, including those described below, which could adversely affect our business, financial condition, results of operations, cash flows, and the trading price of our shares.

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

We focus principally on four target industries: financial services, healthcare, real estate, and technology. Volatility in the business environment in these industries or in the market for securities of companies within these industries could adversely affect our financial results and the market value of our shares. The business environment for companies in some of these industries has been subject to high levels of volatility in recent years, and our financial results have consequently been subject to significant variations from year to year. Over the last ten years, the mix of our investment banking revenues has shifted from over 70% combined in financial services and real estate (slightly weighted in favor of the real estate sector) to 27% of total investment banking revenues in financial services and real estate in 2014. The healthcare sector has risen to 54% of total investment banking revenues in 2014 with the remaining 19% derived from the technology sector. The market for securities in each of our target industries may also be subject to industry-specific risks. For example, we have research, investment banking and principal investments focused in the areas of financial services, real estate and mortgage-related securities. These sectors have been impacted negatively by disruption in the financial markets and downturn in the general economy and the real estate market.

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

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

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

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

Our growth strategy also relies on our ability to attract and retain profitable senior level profitable senior level professionals across all of our businesses. Due to the early stage of development of many of our businesses and competition from other firms, we may face difficulties in recruiting and retaining professionals of a caliber consistent with our business strategy. In particular, many of our competitors are significantly larger with greater financial resources, and may be able to offer more attractive compensation packages and broader career opportunities. Additionally, it may take more than one year for us to determine whether new professionals will be profitable or effective, during which time we may incur significant expenses and expend significant time and resources on training, integration and business development.

Certain aspects of our cost structure are largely fixed, and we may incur costs associated with new or expanded lines of business prior to these lines of business generating significant revenue. If our revenue declines or fails to increase commensurately with the expenses associated with new or expanded lines of business, our profitability may be materially adversely affected.

We may incur costs associated with new or expanded lines of business, including guaranteed or fixed compensation costs, prior to these lines of business generating significant revenue. In addition, certain aspects of our cost structure, such as costs for occupancy, communication and information technology services, and depreciation and amortization are largely fixed, and we may not be able to timely adjust these costs to match fluctuations in revenue. If our revenue declines, or fails to increase commensurately with the expenses associated with new or expanded lines of business, our profitability may be materially adversely affected.

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

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

We are a relatively small investment bank with 187 employees as of December 31, 2014. Many of our competitors have a broader range of products and services, greater financial and marketing resources, larger customer bases, greater name recognition, more senior professionals to serve their clients' needs, greater global reach and more established relationships with clients than we have. These larger and better capitalized competitors may be better able to respond to changes in the investment banking industry, compete for skilled professionals, finance acquisitions, fund internal growth and compete for market share generally. These firms have the ability to support investment banking with commercial banking, insurance and other financial services in an effort to gain market share, which has resulted, and could further result, in pricing pressure in our businesses. In particular, the ability to provide commercial financing has become an important advantage for some of our larger competitors and, because we do not provide such financing, we may be unable to compete as effectively for clients in a significant part of the investment banking industry. In addition, if the number of capital markets and financial advisory transactions continues to decline in response to current economic conditions, larger investment banking firms may seek to enter into engagements with smaller companies and for smaller transactions that traditionally would have been considered too small for these firms.

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

We face strong competition from middle-market investment banks.

We compete with specialized investment banks to provide financial and investment banking services to small and middle-market companies. Middle-market investment banks provide access to capital and strategic advice to small and middle-market companies in our target industries. We compete with those investment banks on the basis of a number of factors, including client relationships, reputation, the abilities of our professionals, transaction execution, innovation, price, market focus and the relative quality of our products and services. We have experienced intense competition over obtaining advisory mandates in recent years, and we may experience pricing pressures in our investment banking business in the future as some of our competitors seek to obtain increased market share by reducing fees. Competition in the middle-market may further intensify if larger Wall Street investment banks expand their focus to this sector of the market. Increased competition could reduce our market share from investment banking services and our ability to generate fees at historical levels.

We also face increased competition due to a trend toward consolidation. In recent years, there has been substantial consolidation and convergence among companies in the financial services industry. This trend was amplified in connection with the unprecedented disruption and volatility in the financial markets during the past several years, and, as a result, a number of financial services companies have merged, been acquired or have fundamentally changed their respective business models. Many of these firms may have the ability to support investment banking, including financial advisory services, with commercial banking, insurance and other financial services in an effort to gain market share, which could result in pricing pressure in our businesses.

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

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

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

- changes in our distribution policy.

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

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

We have experienced, and expect to experience in the future, significant variations from period to period in our revenues and results of operations from investment banking activities. Future variations in investment banking revenues may be attributable in part to the fact that our investment banking revenues are typically earned upon the successful completion of a transaction, the timing of which is uncertain and beyond our control. In most cases, we receive little or no payment for investment banking engagements that do not result in the successful completion of a transaction. As a result, our business is highly dependent on market conditions as well as the decisions and actions of our clients and interested third parties. For example, a client's acquisition transaction may be delayed or terminated because of a failure to agree upon final terms with the counterparty, failure to obtain necessary regulatory consents or board or shareholder approvals, failure to secure necessary financing, adverse market conditions or unexpected financial or other problems in the business of a client or a counterparty. If the parties fail to complete a transaction on which we are advising or an offering in which we are participating, we will earn little or no revenue from the contemplated transaction. In addition, we incur significant expenses related to a contemplated transaction regardless of whether or not the contemplated transaction generates revenues. This risk may be intensified by our focus on growth companies in the financial services, healthcare, real estate and technology industries, as the market for securities of these companies has experienced significant variations in the number and size of equity offerings. In addition, our investment banking revenues are highly dependent on the level of mergers and acquisition and capital raising activity in the U.S. which fluctuates substantially from period to period. According to data from Dealogic, a provider of global investment banking analysis and systems, the number of mergers and acquisition transactions in the U.S. varied from approximately 4,700 in 2012 ($404.0 billion in deal value) to approximately 6,133 in 2013 ($474.3 billion in deal value) to approximately 6,480 in 2014 ($576.5 billion in deal value). The number of capital raising transactions varied from 1,027 in 2013 (raising $263.7 billion) to 1,028 in 2014 (raising $261.9 billion). Our investment banking revenues would be adversely affected in the event that the number and size of mergers and acquisitions and capital raising transactions decline. As a result, we may not achieve steady and predictable earnings on a quarterly basis, which could in turn adversely affect our share price.

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

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

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

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

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

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

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

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

We derive a significant portion of our revenues from our sales and trading business, which accounted for 15%, 17% and 22% of our net revenues for the years ended December 31, 2014, 2013 and 2012, respectively. Along with other investment banking firms, we have experienced intense price competition and trading volume reduction in this business in recent years. In particular, the ability to execute trades electronically and through alternative trading systems has increased the downward pressure on trading commissions and spreads. We expect these trends toward alternative trading systems and downward pricing pressure in the business to continue. We believe we may experience competitive pressures in these and other areas in the future as some of our competitors seek to obtain market share by competing on the basis of price or by using their own capital to facilitate client trading activities. In addition, we face pressure from our larger competitors, which may be better able to offer a broader range of complementary products and services to clients in order to win their trading business. As we are committed to maintaining and improving our comprehensive research coverage in our target sectors to support our sales and trading business, we may be required to make substantial investments in our research capabilities to remain competitive. If we are unable to compete effectively in these areas, the revenues of our sales and trading business may decline, and our business, results of operations and financial condition may be harmed.

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

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

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

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

The asset management business is intensely competitive.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We use a portion of our own capital in a variety of principal investment activities, each of which involves risks of illiquidity, loss of principal and revaluation of assets. At December 31, 2014, our gross principal investments included $79.9 million invested in other investments (net of $126.9 million related to non-controlling interest), of which $64.6 million related to our family of funds, $11.2 million to funds managed by third-parties, and $4.1 million to equity securities of private companies. We also had $29.5 million invested in marketable securities, and $15.0 million invested through short positions on marketable securities. In addition, we have investments in private companies through loans and lines of credit, which as of December 31, 2014, are carried at $2.0 million net of reserves for credit losses. We have $70.8 million par value invested in the subordinated securities issued by the CLOs. The companies in which we invest may rely on new or developing technologies or novel business models, or concentrate on markets which are or may be disproportionately impacted by pressures in the financial services and/or mortgage and real estate sectors, have not yet developed and which may never develop sufficiently to support successful operations, or their existing business operations may deteriorate or may not expand or perform as projected. As a result, we have suffered losses in the past and we may suffer losses from our principal investment activities in the future.

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

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

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

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

In addition, some of these investments are, or may in the future be, in industries or sectors which are unstable, in distress or undergoing some uncertainty. Such investments may be subject to rapid changes in value caused by sudden company-specific or industry-wide developments. Contributing capital to these investments is risky, and we may lose some or all of the principal amount of our investments. There are no regularly quoted market prices for a number of the investments that we make. The value of our investments is determined using fair value methodologies described in valuation policies, which may consider, among other things, the nature of the investment, the expected cash flows from the investment, bid or ask prices provided by third parties for the investment and the trading price of recent sales of securities (in the case of publicly-traded securities), restrictions on transfer and other recognized valuation methodologies. The methodologies we use in valuing individual investments are based on estimates and assumptions specific to the particular investments. Therefore, the value of our investments does not necessarily reflect the prices that would actually be obtained by us when such investments are sold. Realizations at values significantly lower than the values at which investments have been reflected in values would result in loses of potential incentive income and principal investments.

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

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

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

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

All of our businesses have been in the past and may in the future be materially affected by conditions in the financial market and general economic conditions, such as the level and volatility of interest rates, investor sentiment, the availability and the cost of credit, the U.S. mortgage market, the U.S. real estate market, volatile energy prices, consumer confidence, unemployment, and geopolitical issues. Financial markets experienced extreme volatility and disruption from mid-2007 to early 2009, and challenging conditions persisted. While financial markets have become more stable and have generally improved since 2009, there remains a certain degree of uncertainty about a global economic recovery. In particular, recent events relating to European debt markets and the possibility that EU member states may default on their debt obligations, combined with uncertainty about the global economic outlook, have led to volatility and a continuation of challenging economic conditions. The uncertainty over the outcome of international and the EU's financial support programs and the possibility that other EU member states may experience similar financial troubles could further disrupt global markets.

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

- Our opportunity to act as underwriter or placement agent could be adversely affected by a reduction in the number and size of capital raising transactions or by competing government sources of equity.
- The number and size of mergers and acquisitions transactions or other strategic advisory services where we act as adviser could be adversely affected by continued uncertainties in valuations related to asset quality and creditworthiness, volatility in the equity markets, and diminished access to financing.
- Market volatility could lead to a decline in the volume of transactions that we execute for our customers and, therefore, to a decline in the revenue we receive from commissions and spreads.
- We may experience losses in securities trading activities, or as a result of write-downs in the value of securities that we own, as a result of deteriorations in the businesses or creditworthiness of the issuers of such securities.
- We may experience losses or write downs in the realizable value of our principal investments due to the inability of companies we invest in to repay their borrowings.
- Our access to liquidity and the capital markets could be limited, preventing us from making principal investments and restricting our sales and trading businesses.
- We may incur unexpected costs or losses as a result of the bankruptcy or other failure of companies for which we have performed investment banking services to honor ongoing obligations such as indemnification or expense reimbursement agreements.
- Sudden sharp declines in market values of securities can result in illiquid markets and the failure of counterparties to perform their obligations, which could make it difficult for us to sell securities, hedge securities positions, and invest funds under management.

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

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

- Market volatility could result in lower prices for securities, which may result in reduced management fees calculated as a percentage of assets under management.

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

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

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

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

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

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

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

Historically, we have satisfied our need for funding from internally generated funds, the net proceeds from our 2007 initial public offering, and our revolving credit facility with City National Bank. Further, in January 2013, we raised approximately $46.0 million from the sale of our 2013 Senior Notes and in January 2014, we raised an additional $48.3 million from the sale of our 2014 Senior Notes. In the event existing internal and external financial resources do not satisfy our needs, we would have to seek additional outside financing. The availability of outside financing will depend on a variety of factors, such as our financial condition and results of operations, the availability of acceptable collateral, market conditions, the general availability of credit, the volume of trading activities, and the overall availability of credit to the financial services industry.

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

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

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

Increased leverage may harm our financial condition and results of operations.

As of December 31, 2014, our total indebtedness was approximately $94.3 million, which consists of $46.0 million in principal amount of 8.00% senior notes due 2023 and $48.3 million principal amount of 7.25% senior notes due 2021.

This does not include asset-backed securities of CLO I, CLO II and CLO III, which are consolidated in our financial statements, together with the loans collateralizing the asset-backed securities of the CLOs, even though the CLOs are bankruptcy remote entities with no recourse to us. Our level of indebtedness could have important consequences to you, because:

- it could affect our ability to satisfy our financial obligations, including those relating to the Senior Notes and outstanding borrowings under our credit facility;
- a substantial portion of our cash flows from operations will have to be dedicated to interest and principal payments and may not be available for operations, working capital, capital expenditures, expansion, acquisitions or general corporate or other purposes;
- it may impair our ability to obtain additional financing in the future;
- it may limit our ability to refinance all or a portion of our indebtedness on or before maturity;
- it may limit our flexibility in planning for, or reacting to, changes in our business and industry; and
- it may make us more vulnerable to downturns in our business, our industry or the economy in general.

Our operations may not generate sufficient cash to enable us to service our debt. If we fail to make a payment on the Senior Notes or fail to maintain a minimum level of liquidity, we could be in default on the Senior Notes, and this default could cause us to be in default on our other outstanding indebtedness. Conversely, a default on our other outstanding indebtedness may cause a default under the Senior Notes. In addition, we may incur additional indebtedness in the future, and, as a result, the related risks that we now face, including those described above, could intensify. A default, if not waived, could result in acceleration of the debt outstanding under the related agreement. If that should occur, we may not be able to pay all such debt or to borrow sufficient funds to refinance it. Even if new financing were then available, it may not be on terms that are acceptable to us. The indentures for the senior notes do not restrict our ability to incur additional indebtedness.

Increases in short term LIBOR interest rates could adversely affect the performance of our CLOs.

An increase in prevailing interest rates could adversely affect the return on equity of the CLOs we manage. Many of the loans in CLO portfolios have variable interest rates indexed to LIBOR and subject to a LIBOR floor, which provides additional income during periods when LIBOR rates are below the floor levels. Loans with a LIBOR floor pay an interest rate of LIBOR plus the applicable margin so long as LIBOR remains above the specified floor level. If, however, LIBOR falls below the floor, the interest rate is the floor level plus the applicable margin. The asset backed securities issued by our CLOs typically have variable interest rates indexed to LIBOR, but do not have LIBOR floors. Accordingly, in a low interest rate environment, the equity holders of our CLOs benefit from a so called LIBOR floor benefit. If the LIBOR increases above the applicable LIBOR floors, the variable interest payments on the CLO asset backed securities will also increase, and the LIBOR floor benefit to us will decrease. This will diminish the return on equity of our CLOs that we hold, which could have an adverse impact on our results of operations.

We may not receive any return on our investment in the CLOs in which we have invested and we may be unable to raise additional CLOs.

As of December 31, 2014, we had $70.8 million par value invested in the subordinated securities issued by CLOs managed by JMP Credit Advisors. Subject to market conditions, we expect to continue to acquire subordinated securities in the future in CLOs managed by JMP Credit Advisors (and/or third party managers). These subordinated securities are the most junior class of securities issued by the CLOs and are subordinated in priority of payment to the senior securities issued by these CLOs. Therefore, they only receive cash distributions if the CLOs have made all cash interest payments to all other debt securities issued by the CLOs and are in compliance with their interest and overcollateralization coverage tests. Consequently, to the extent that the value of a CLOs' loan investments has been reduced as a result of conditions in the credit markets, or as a result of defaulted loans or excess triple C rated loans, the value of the subordinated securities could be reduced. Additionally, we may not be able to continue to complete new CLOs due to prevailing CLO market conditions or other factors.

We expect to enter into warehouse agreements in connection with our potential investments in and management of new CLOs and other investment products, which may expose us to substantial risks.

In connection with our potential investment in and management of new CLOs, we expect to enter into warehouse credit agreements with banks or other financial institutions, pursuant to which the warehouse provider will finance the purchase of loans that will be ultimately included in a CLO. We will typically select the investments in the warehouse subject to the approval of the warehouse provider. If the relevant CLO transaction is not issued or consummated, as applicable, the warehouse investments may be liquidated, and we may lose some or all of our equity, or first loss investment in the warehouse facility if the value of the loans we purchased in it decreases. In addition, regardless of whether the CLO is issued or consummated, if any of the warehoused investments are sold before such issuance or consummation, we may have to bear any resulting loss on the sale. The amount at risk in connection with a warehouse agreement will vary and may not be limited to the amount, if any, that we invest in the related CLO upon its issuance or consummation, as applicable. Although we would expect to complete the issuance of a particular CLO within six to nine months after establishing a related warehouse, we may not be able to complete the issuance within such expected time period or at all.

Changes in CLO spreads and an adverse market environment could continue to make it difficult for us to launch new CLOs.

The ability to issue new CLOs is dependent, in part, on the amount by which the interest earned on the investments held by the CLO exceeds the interest payable on the debt obligations the CLO issues, as well as other factors. If this excess (also known as a CLO’s “arbitrage”) is not sufficient, it is difficult to raise equity capital for a new CLO. There may be sustained periods when market conditions are not sufficient for us to sponsor new CLOs, which could materially impair the growth of our business. During the recent financial crisis, there was a dislocation in the credit market that significantly impeded CLO formation. Although market conditions have improved, the dislocation in credit markets could return and continue for a significant period of time. Renewed dislocation of these markets could adversely impact our results of operations and financial condition.

Defaults, downgrades and depressed market values of the collateral underlying CLOs may cause the decline in and deferral of investment advisory income and the reduction of assets under management.

Under the collateral management agreements between JMP Credit Advisors and the CLOs it manages, payment of management fees is generally subject to a “waterfall” structure. Pursuant to these waterfalls, all or a portion of the subordinated management fees may be deferred if, among other things, the CLOs do not generate sufficient cash flows to pay the required interest on the senior notes they have issued to investors and certain expenses they have incurred. Deferrals could occur if the credit quality of the issuers of the collateral underlying the CLOs deteriorates or they default on or defer payments of principal or interest relating to such collateral. Due to severe levels of defaults and delinquencies on the assets underlying certain of the CLOs managed by us, in the past, we have both experienced declines in and deferrals of management fees. Further, during such periods and pursuant to the waterfalls, the CLOs may be required to repay certain of these liabilities, which repayment permanently reduces our assets under management and related investment advisory fees pursuant to which we can recoup deferred subordinated fees. If similar defaults and delinquencies resume, we could experience additional declines in and deferrals of management fees.

Additionally, all or a portion of our investment advisory fees from the CLOs that we manage may be deferred if such CLOs fail to satisfy certain “over-collateralization” tests. Pursuant to the “waterfall” structure discussed above, such failures generally require cash flows to be diverted to prepay certain of the CLO’s liabilities resulting in similar permanent reductions in assets under management and investment advisory fees in respect of such CLOs. Defaulted assets and assets that have been severely downgraded are generally carried at a reduced value for purposes of the over-collateralization tests. We have experienced, and may experience in the future, declines in and deferrals of management fees which could have a material and adverse effect on us.

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

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

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

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

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

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

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

Although we have paid a quarterly dividend on our shares since our initial public offering historically, and we have announced the payment of monthly distributions starting in the first quarter of 2015, there can be no assurance that in the future sufficient cash will be available for us to pay distributions on our shares to our shareholders, and our board of directors may at any time modify or revoke our current distribution policy. Any decision to declare and pay distributions in the future will be made at the discretion of our board of directors and will depend on, among other things, our results of operations, financial condition, cash requirements, contractual restrictions and other factors that our board of directors may deem relevant. We do not intend to borrow funds in order to pay distributions. In addition, JMP Group LLC, the entity from which we make our distribution payments, is a holding company that does not conduct any significant business operations of its own, and therefore, it is dependent upon cash dividends and other transfers from our subsidiaries to make distribution payments on its shares. The amounts available to us to pay cash distributions are restricted by existing and future debt agreements. In general, under the credit agreement governing our revolving lines of credit and term loans with City National Bank, we are restricted under certain circumstances from making distributions if an event of default has occurred under that agreement. The Senior Notes were issued pursuant to an indenture, as supplemented, with U.S. Bank National Association, as trustee. The indenture contains a minimum liquidity covenant that obligates us to maintain liquidity of at least an amount equal to the lesser of (i) the aggregate amount due on the next eight scheduled quarterly interest payments on the Senior Notes, or (ii) the aggregate amount due on all remaining scheduled quarterly interest payments on the Senior Notes until the maturity of the Senior Notes. The indenture also contains customary event of default and cure provisions. If an uncured default occurs and is continuing, the Trustee or the holders of at least 25% in principal amount of the Senior Notes may declare the Senior Notes immediately due and payable. SEC regulations also provide that JMP Securities may not pay cash dividends to us if certain minimum net capital requirements are not met. In addition, Delaware law permits the declaration of distributions only to the extent of our surplus (which is defined as total assets at fair market value minus total liabilities, minus statutory capital), or if there is no surplus, out of our net profits for the then current and/or immediately preceding fiscal years. In the event we do not pay cash distributions on our shares as a result of these restrictions, you may not receive any return on an investment in our shares unless you sell your shares for a price greater than the price for which you paid.

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

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

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

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

Our risk management strategies and techniques may not be fully effective in mitigating our risk exposure in all market environments or against all types of risk. We seek to manage, monitor and control our operational, legal and regulatory risk through operational and compliance reporting systems, internal controls, management review processes and other mechanisms; however, there can be no assurance that our procedures will be fully effective. Further, our risk management methods may not effectively predict future risk exposures, which could be significantly greater than the historical measures indicate. In addition, some of our risk management methods are based on an evaluation of information regarding markets, clients and other matters that are based on assumptions that may no longer be accurate. A failure to adequately manage our growth, or to effectively manage our risk, could materially and adversely affect our business and financial condition.

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

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

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

We have outsourced certain aspects of our technology infrastructure, administration and general service providers, including data centers, disaster recovery systems, and wide area networks, as well as some trading applications. We are dependent on our providers to manage and monitor those functions. A disruption of any of the outsourced services would be out of our control and could negatively impact our business. We have experienced disruptions on occasion, none of which has been material to our operations and results. However, there can be no guarantee that future disruptions with these providers will not occur. We also face the risk of operational failure, capacity constraints or termination of relations with any of the clearing agents, exchanges, clearing houses or other financial intermediaries we use to facilitate our securities transactions. As a result of the consolidation over the years among clearing agents, exchanges and clearing houses, our exposure to certain financial intermediaries has increased and could affect our ability to find adequate and cost-effective alternatives should the need arise. Any such failure, constraint or termination could adversely affect our ability to effect transactions and to manage our exposure to risk.

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

Our operations also rely on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. Although we take protective measures and endeavor to modify them as circumstances warrant, our computer systems, software and networks may be vulnerable to unauthorized access, cyberattacks, computer viruses or other malicious code and other events that could have a security impact. Breaches of our network security systems could involve attacks that are intended to obtain unauthorized access to our proprietary information, destroy data or disable, degrade or sabotage our systems, often through the introduction of computer viruses, cyberattacks and other means and could originate from a wide variety of sources, including unknown third parties outside the firm. Although we take various measures to ensure the integrity of our systems, there can be no assurance that these measures will provide protection. If one or more of such events occur, this could jeopardize our or our clients' or counterparties' confidential and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our, our clients', our counterparties' or third parties' operations. We may be required to expend significant additional resources to modify our protective measures, to investigate and remediate vulnerabilities or other exposures or to make required notifications, and we may be subject to litigation and financial losses that are either not insured or not fully covered through any insurance maintained by us. If our systems are compromised, do not operate properly or are disabled, we could suffer a disruption of our business, financial losses, liability to clients, regulatory sanctions and damage to our reputation.

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

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

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

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

- problems with the effective integration of operations;
- the inability to maintain key pre-acquisition business relationships and integrate new relationships;
- increased operating costs;
- loss of key employees or customers;
- exposure to unanticipated liabilities;
- the diversion of management's attention from our day-to-day business as a result of the need to manage any disruptions and difficulties and the need to add management resources to do so;
- risks of misconduct by employees not subject to our control;
- difficulties in realizing projected efficiencies, synergies and cost savings; and
- exposure to new or unknown liabilities.

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

Risks Related to Our Industry

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

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

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

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

The Dodd-Frank Act and related regulations may negatively affect our business activities, financial position and profitability.

The Dodd-Frank Act, and related rulemakings, have instituted a wide range of reforms that have impacted financial services firms. For example, in January 2011 the SEC released its mandated study on the effectiveness of current legal and regulatory standards for broker-dealers and investment advisers, which may result in the imposition of fiduciary duties on broker-dealers. The legislation and regulation of financial institutions, both domestically and internationally, include calls to increase capital and liquidity requirements; limit the size and types of the activities permitted; and increase taxes on some institutions. FINRA's oversight over broker-dealers and investment advisors may be expanded, and new regulations on having investment banking and securities analyst functions in the same firm may be created. Many of the provisions of the Dodd-Frank Act are subject to further rule making procedures and studies and will take effect over several years. As a result, we cannot assess the impact of these new legislative and regulatory changes on our business at the present time. However, these legislative and regulatory changes could affect our revenue, limit our ability to pursue business opportunities, impact the value of assets that we hold, require us to change certain of our business practices, impose additional costs on us, or otherwise adversely affect our businesses. If we do not comply with current or future legislation and regulations that apply to our operations, we may be subject to fines, penalties or material restrictions on our businesses in the jurisdiction where the violation occurred. Accordingly, such new legislation or regulation could have an adverse effect on our business, results of operations, cash flows or financial condition.

Governmental fiscal and monetary policy could adversely affect our small business lending activities, financial position and profitability.

Our small business lending sector is affected by the fiscal and monetary policies of the federal government and its agencies. The Federal Reserve Board regulates the supply of money and credit in the U.S. Among the instruments of monetary policy available to the FRB are (a) conducting open market operations, (b) changing the discount rates of borrowings of depository institutions, and (c) changing reserve requirements against depository institutions' deposits. These methods are used in varying degrees and combinations to directly affect the availability of bank loans and deposits, as well as the interest rates charged on loans and paid on deposits. Its policies determine in large part our cost of funds for lending, investing and capital raising activities and the return we earn on those loans and investments, both of which affect our net interest margin.

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

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

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

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

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

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

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

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

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

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

We are not an investment company under the Investment Company Act. However, if we were to cease operating and controlling the business and affairs of JMP Securities and HCS or if either of these subsidiaries were deemed to be an investment company, our interest in those entities could be deemed an investment security for purposes of the Investment Company Act. We intend to conduct our operations so that we will not be deemed an investment company. However, we do invest some of our capital in principal investments. In addition, recent “risk retention” regulations in the European Union and under the Dodd-Frank Act require us to invest in the subordinated notes of the CLOs that we manage. If we were to be deemed an investment company, restrictions imposed by the Investment Company Act, including limitations on our capital structure and our ability to transact with affiliates, could make it impractical for us to continue our business as contemplated and would harm our business and the price of our shares.

Tax Risks to Holders of our Shares

If JMP Group LLC fails to satisfy the "qualifying income exception," all of its income will be subject to an entity-level tax, which could result in a material reduction in cash flow and after-tax return for holders of our shares and thus could result in a substantial reduction in the value of those shares.

Under current law and assuming full compliance with the terms of the Amended and Restated Limited Liability Company Agreement of JMP Group LLC (the "LLC agreement") (and other relevant documents) and based upon factual representations that were made by us, we received an opinion of Orrick, Herrington & Sutcliffe LLP ("Orrick"), to the effect that JMP Group LLC will be treated as a partnership, and not as an association or a publicly-traded partnership taxable as a corporation, for U.S. federal income tax purposes. The factual representations that were made by us upon which Orrick relied relate to our organization, operation, assets, activities, income (including our ability to satisfy the qualifying income exception discussed below), and present and future conduct of our operations. Opinions of counsel, however, are not binding on the Internal Revenue Service ("IRS") and no assurance can be given that the IRS will not assert, or that a court would not sustain, a contrary position.

In general, if a partnership is "publicly-traded" (as defined in the U.S. Internal Revenue Code of 1986, as amended (the "Code")), it will be treated as a corporation for U.S. federal income purposes. A publicly-traded partnership will, however, be taxed as a partnership, and not as a corporation, for U.S. federal income tax purposes, so long as 90% or more of its gross income for each taxable year constitutes "qualifying income" within the meaning of Section 7704(d) of the Code. We refer to this exception as the "qualifying income exception." Qualifying income generally includes rents, dividends, interest (to the extent such interest is neither derived from the conduct of a trade or business nor based, directly or indirectly, upon income or profits of any person), and capital gains from the sale or other disposition of stocks, bonds and real property. Qualifying income also includes other income derived from the business of investing in, among other things, stocks and securities.

If JMP Group LLC fails to satisfy the "qualifying income exception" described above, items of income, gain, loss, deduction and credit would not pass through to you and you would be treated for U.S. federal (and certain state and local) income tax purposes as a stockholder in a corporation. In such case, JMP Group LLC would be required to pay U.S. federal income tax at regular corporate rates on all of its income. In addition, JMP Group LLC would likely be liable for state and local income and/or franchise taxes on all of its income. Distributions to holders of shares would constitute ordinary income taxable to such holders to the extent of JMP Group LLC's earnings and profits, and these distributions would not be deductible by JMP Group LLC. Taxation of JMP Group LLC as a corporation could result in a material reduction in cash flow and after-tax return for holders of shares and thus could result in a substantial reduction in the value of those shares.

Complying with certain tax-related requirements may cause JMP Group LLC and JMP Group Inc. to forego otherwise attractive business or investment opportunities.

In order for JMP Group LLC to be treated as a partnership for U.S. federal income tax purposes, and not as an association or publicly-traded partnership taxable as a corporation, it must satisfy the qualifying income exception, which will require that at least 90% of its gross income each taxable year consist of interest, dividends, capital gains and other types of “qualifying income.” Interest income will not be qualifying income for the purposes of the qualifying income exception if it is derived from the conduct of a trade or business or is based, directly or indirectly, upon the income or profits of any person. This requirement will limit JMP Group LLC’s (and certain of its subsidiary’s) ability to originate loans. In addition, it is intended that JMP Group LLC (and its subsidiaries) will operate so as to avoid generating a significant amount of income that is treated as effectively connected with the conduct of a U.S. trade or business with respect to non-U.S. holders. In order to comply with these requirements, JMP Group LLC (or its subsidiaries) may be required to invest through non-U.S. or domestic corporations or forego attractive business or investment opportunities. Thus, compliance with these requirements may adversely affect JMP Group LLC’s ability to maximize revenue or net income.

We could incur a significant tax liability if the IRS successfully asserts that the “anti-stapling” rules apply to JMP Group LLC’s investments in JMP Group Inc. and certain of our non-U.S. CLO issuers, which could result in a reduction in cash flow and after-tax return for holders of shares and thus could result in a reduction of the value of those shares.

If JMP Group LLC were subject to the “anti-stapling” rules of Section 269B of the Code, we would incur a significant tax liability as a result of owning more than 50% of the value of both a domestic corporate subsidiary and a non-U.S. CLO issuer. If the “anti-stapling” rules applied following the Reorganization Transaction which we recently completed, our non-U.S. CLO issuers that are treated as corporations for U.S. federal income tax purposes, would be treated as domestic corporations, which would cause those entities to be subject to U.S. federal corporate income taxation, and JMP Group Inc. and the non-U.S. CLO issuers would be treated as a single entity for purposes of U.S. federal corporate income taxation. Because we intend that JMP Group LLC will own, or be treated as owning, a substantial proportion of its assets directly for U.S. federal income tax purposes, we do not believe that the “anti-stapling” rules will apply. However, there can be no assurance that the IRS would not successfully assert a contrary position, which could result in a reduction in cash flow and after-tax return for holders of shares and thus could result in a reduction of the value of those shares.

You will be subject to U.S. federal income tax on your share of JMP Group LLC's taxable income, regardless of whether or when you receive any cash distributions from JMP Group LLC.

JMP Group LLC intends to be treated, for U.S. federal income tax purposes, as a partnership and not as an association or a publicly-traded partnership taxable as a corporation. Provided that the qualifying income exception is met, you will be subject to U.S. federal income taxation and applicable state, local and foreign income taxation, on your allocable share of JMP Group LLC's taxable income, regardless of whether or when you receive cash distributions. In addition, certain of our investments, including investments in non-U.S. CLO issuers and debt securities, may produce taxable income without corresponding distributions of cash to us or produce taxable income prior to or following the receipt of cash relating to such income. You will be required to take such income into account in determining your taxable income, and you may not receive cash distributions equal to your tax liability attributable to your allocation of JMP Group LLC's taxable income.

Your ability to deduct certain expenses of JMP Group LLC may be limited.

In general, expenses incurred by JMP Group LLC that are considered "miscellaneous itemized deductions" may be deducted by a holder of shares of JMP Group LLC that is an individual, estate or trust only to the extent that a holder's allocable share of those expenses, along with the holder's other miscellaneous itemized deductions, exceed, in the aggregate, 2% of the holder's adjusted gross income. Additionally, in the case of individuals whose adjusted gross income exceeds a specified amount, miscellaneous itemized deductions in excess of the 2% threshold, when combined with certain of the individual taxpayer's other itemized deductions, generally will be reduced by the lesser of (i) 3% of the holder's adjusted gross income in excess of a threshold amount or (ii) 80% of the amount of itemized deductions otherwise allowable for such year. In addition, these expenses are also not deductible in determining the alternative minimum tax liability of a holder. Your inability to deduct all or a portion of such expenses, among other things, could result in an amount of taxable income to you with respect to JMP Group LLC that exceeds the amount of cash actually distributed to you for the year.

In the case of a disposition of shares of JMP Group LLC, debt of JMP Group LLC must be taken into account under the partnership tax accounting rules.

Subsequent to the Reorganization Transaction whereby JMP Group Inc. merged with and into JMP Group LLC, JMP Group LLC incurred debt (including a 30-year promissory note (the "Promissory Note")) for a variety of reasons. Under partnership tax accounting principles (which will apply to JMP Group LLC if the qualifying income exception is met), debt of JMP Group LLC generally will be allocable to holders of shares of JMP Group LLC, and the holders will include their respective allocable shares of the debt in the U.S. federal income tax basis of their shares. A holder's U.S. federal income tax basis in shares will be adjusted for, among other things, distributions of cash and allocations of items of JMP Group LLC's income, gain, loss and deduction. At the time a holder of shares of JMP Group LLC later sells its shares, for U.S. federal income tax purposes, the holder's amount realized on the sale will include not only the sales price of the shares but also the holder's portion of outstanding indebtedness incurred by JMP Group LLC subsequent to the Reorganization Transaction that is allocable to those shares.

Tax-exempt holders of shares of JMP Group LLC will likely recognize significant amounts of "unrelated business taxable income."

An organization that is otherwise exempt from U.S. federal income tax is nonetheless subject to U.S. federal income taxation with respect to its "unrelated business taxable income" ("UBTI"). Because we recently incurred "acquisition indebtedness" (such as the Promissory Note) with respect to certain equity and debt securities we hold (either directly or indirectly through subsidiaries that are treated as partnerships or disregarded for U.S. federal income tax purposes), a proportionate share of your income from JMP Group LLC with respect to such securities will be treated as UBTI. Accordingly, tax-exempt holders of shares of JMP Group LLC will likely recognize significant amounts of UBTI. For certain types of tax-exempt entities, the receipt of any UBTI would have adverse consequences. Tax-exempt holders of JMP Group Inc. common stock are strongly urged to consult their tax advisors regarding the tax consequences of owning shares of JMP Group LLC.

There can be no assurance that the IRS will not assert successfully that some portion of JMP Group LLC's income is properly treated as effectively connected income with respect to non-U.S. holders.

While it is expected that JMP Group LLC's method of operation will not result in the generation of significant amounts of income treated as effectively connected with the conduct of a U.S. trade or business with respect to non-U.S. holders of our shares, there can be no assurance that the IRS will not assert successfully that some portion of JMP Group LLC's income is properly treated as effectively connected income with respect to such non-U.S. holders. To the extent JMP Group LLC's income is treated as effectively connected income, non-U.S. holders generally would be required to (i) file a U.S. federal income tax return reporting their allocable shares of JMP Group LLC's taxable income or loss effectively connected with such trade or business and (ii) pay U.S. federal income tax at regular U.S. tax rates on any such taxable income. Non-U.S. holders that are corporations also would be required to pay a U.S. federal branch profits tax at a 30% rate (or lower rate provided by applicable treaty).

Dividends paid by, or certain income inclusions derived with respect to, JMP Group LLC's ownership of, foreign entities that are treated as corporations for U.S. federal income tax purposes may not qualify for the reduced tax rates generally applicable to corporate dividends paid to taxpayers taxed at individual rates.

The maximum U.S. federal income tax rate on certain corporate dividends payable to non-corporate taxpayers currently is 20%. Dividends payable by, or certain income inclusions derived with respect to the ownership of, passive foreign investment companies ("PFICs"), certain controlled foreign corporations ("CFCs"), and REITs, however, generally are not eligible for the reduced rates. We have treated and intend to continue to treat certain of our foreign CLO issuers taxed as corporations for U.S. federal income tax purposes, as the type of CFCs whose income inclusions are not eligible for lower tax rates on dividend income. The more favorable U.S. federal income tax rates applicable to regular corporate dividends could cause investors taxed at individual rates to perceive investments in PFICs or CFCs, or in companies like us where a substantial portion of our holdings are in foreign corporations, to be relatively less attractive than holdings in the stocks of non-CFC and non-PFIC corporations that pay dividends, which could adversely affect the value of our shares.

Although we anticipate that our foreign CLO issuers will not be subject to U.S. federal income tax on a net income basis, no assurance can be given that such CLO issuers will not be subject to U.S. federal income tax on a net income basis in any given taxable year.

We anticipate that our foreign CLO issuers that are taxed as corporations for U.S. federal income tax purposes, generally will continue to conduct their activities in such a way as not to be deemed to be engaged in a U.S. trade or business and not to be subject to U.S. federal income tax. There can be no assurance, however, that our foreign CLO issuers will not pursue investments or engage in activities that may cause them to be engaged in a U.S. trade or business. Moreover, there can be no assurance that as a result of any change in applicable law, treaty, rule or regulation or interpretation thereof, the activities of any of our foreign CLO issuers will not become subject to U.S. federal income tax. Further, there can be no assurance that unanticipated activities of our foreign CLO issuers will not cause such entities to become subject to U.S. federal income tax. If any of our foreign CLO issuers became subject to U.S. federal income tax (including the U.S. federal branch profits tax), it would significantly reduce the amount of cash available for distribution to us, which in turn could have an adverse impact on the value of our shares. Although our foreign CLO issuers generally are not expected to be subject to U.S. federal income tax on a net income basis, such entities may receive income that is subject to withholding taxes imposed by the United States or other countries.

We may not realize the anticipated benefits of the Reorganization Transaction because of, among other reasons, changes in tax laws.

Many factors could affect some or all of the anticipated benefits of the Reorganization Transaction, which we recently completed. The U.S. federal income tax treatment of holders of shares of JMP Group LLC depends in some instances on determinations of fact and interpretations of complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. You also should be aware that the U.S. federal income tax rules are constantly under review by the IRS, resulting in revised interpretations of established concepts. The IRS pays close attention to the proper application of tax laws to partnerships and investments in non-U.S. entities. The present U.S. federal income tax treatment of an investment in shares of JMP Group LLC may be modified by administrative, legislative or judicial interpretation at any time, and any such action may affect investments and commitments previously made. We and holders of shares of JMP Group LLC could be adversely affected by any such change, or by new tax law, regulation or interpretation. Our organizational documents and agreements permit our Manager to modify the LLC agreement from time to time, without the consent of the holders of shares of JMP Group LLC, in order to address certain changes in U.S. federal income tax regulations, legislation or interpretation. In some circumstances, such revisions could have an adverse impact on some or all of the holders of shares. Moreover, we intend to apply certain assumptions and conventions in an attempt to comply with applicable rules and to report income, gain, deduction, loss and credit to you in a manner that reflects your distributive share of JMP Group LLC’s items, including the monthly convention pursuant to which items of taxable income, gain, loss deduction and credit generally will be determined annually and will be prorated on a monthly basis, but these assumptions and conventions may not be in compliance with all aspects of applicable tax requirements. It is possible that the IRS may assert successfully that the conventions and assumptions we use do not satisfy the technical requirements of the Code and/or Treasury Regulations and could require that items of income, gain, deduction, loss or credit be adjusted or reallocated in a manner that adversely affects holders of shares of JMP Group LLC.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We occupy five principal offices, with our headquarters located in San Francisco and other offices in New York, Atlanta, Boston and Chicago. We occupy additional space in Minneapolis, and in the states of Pennsylvania and Georgia. All of our properties are leased. Our San Francisco headquarters is located at 600 Montgomery Street and comprises approximately 37,810 square feet of leased space, pursuant to lease agreements expiring in 2019 and 13,920 square feet of leased space, pursuant to lease agreements expiring in 2016. In New York, we lease approximately 20,570 square feet at 450 Park Avenue pursuant to a lease agreement expiring in 2025, and approximately 2,640 square feet at 767 Third Avenue pursuant to a lease agreement expiring 2019. Our Boston office is located at 265 Franklin Street and consists of approximately 2,490 square feet of leased space pursuant to a lease agreement expiring in 2016. In Chicago, we lease approximately 2,500 square feet at 190 South LaSalle Street pursuant to a lease agreement expiring 2020. In Minneapolis, we lease approximately 300 square feet at 100 South Fifth Street pursuant to a sublease agreement expiring 2016. In the state of Pennsylvania, we lease approximately 300 square feet in Paoli at 12 Paoli Pike pursuant to a lease agreement expiring 2015. In the state of Georgia, we lease approximately 500 square feet in Atlanta at 3340 Peachtree pursuant to a sublease agreement expiring in 2015, and lease approximately 5,773 square feet in Alpharetta at 3440 Preston Ridge Road pursuant to a lease agreement expiring in 2015. We sublease approximately 4,350 square feet in San Francisco to third parties.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

Market Information

Our shares trade on the NYSE under the symbol "JMP." The following table sets forth, for the years ended December 31, 2014 and 2013, the high and low sales prices of our shares, as quoted on the NYSE

	Sales Price	
	High	**Low**
Year Ended December 31, 2014		
First quarter	$8.42	$6.63
Second quarter	7.74	6.10
Third quarter	7.72	6.26
Fourth quarter	8.40	6.00

	Sales Price	
	High	**Low**
Year Ended December 31, 2013		
First quarter	$6.99	$5.58
Second quarter	6.94	5.96
Third quarter	7.07	6.15
Fourth quarter	7.56	6.14

As of December 31, 2014, there were approximately 60 holders of record of our shares.

Distribution Policy

We have historically paid quarterly cash dividends, and we currently intend to pay monthly cash distributions, on all of our outstanding shares on our shares of common stock. Our board of directors declared the following dividends in the years ended December 31, 2014 and 2013:

Year Ended December 31, 2014

Declaration Date	Dividend Per Share	Record Date	Total Amount	Payment Date
March 11, 2014	$ 0.045	March 28, 2014	$981,952	April 11, 2014
April 29, 2014	$ 0.050	May 16, 2014	$1,085,315	May 30, 2014
July 29, 2014	$ 0.060	August 15, 2014	$1,301,423	August 29, 2014
October 30, 2014	$ 0.070	November 14, 2014	$1,438,611	November 28, 2014

Year Ended December 31, 2013

Declaration Date	Dividend Per Share	Record Date	Total Amount	Payment Date
March 5, 2013	$ 0.035	March 22, 2013	$791,661	April 5, 2013
May 2, 2013	$ 0.035	May 17, 2013	$775,079	May 31, 2013
July 30, 2013	$ 0.035	August 16, 2013	$770,320	August 30, 2013
October 29, 2013	$ 0.040	November 15, 2013	$871,211	November 29, 2013

Our ability to pay cash distributions in the future will be subject to, among other things, general business conditions within our industry, our financial condition, our operating results and legal and contractual restrictions on the payment of dividends by our subsidiaries to us or by us to our shareholders, including restrictions imposed by covenants in our debt instruments.

Issuer Purchases of Equity Securities

The following table summarizes the stock repurchases for the fourth quarter of the year ended December 31, 2014:

Period	**Total Number of Shares Purchased**	**Average Price Paid Per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**	**Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)**
October 1, 2014 to October 31, 2014	1,067,787	$ 6.21	1,067,787	1,000,000
November 1, 2014 to November 30, 2014	-	$ 0.00	-	1,000,000
December 1, 2014 to December 31, 2014	415,972	$ 7.62	415,972	584,028
Total	1,483,759		1,483,759	

(1) On October 30, 2014, our board of directors increased the Company’s share repurchase authorization to 1,000,000 shares through December 31, 2015.

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

Stock Performance Graph

The following graph compares the cumulative total shareholder return on our common stock with the cumulative total return on the Russell 2000 Index and a peer group index for the period from December 31, 2009 to December 31, 2014. The graph and table below assume that $100 was invested on the starting date and dividends, if any, were reinvested on the date of payment without payment of any commissions. The performance shown in the graph and table represents past performance and should not be considered an indication of future performance.

	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14
JMP Group Inc	100.00	79.11	75.25	65.37	81.44	86.54
Russell 2000 Index	100.00	126.86	121.56	141.43	196.34	205.95
Peer Group Index	100.00	97.43	57.87	70.25	42.35	47.36

Our peer group index includes the following companies in the broker-dealer industry: Cowen Group, Inc.; FBR & Co.; Gleacher & Company, Inc.; Jefferies Group, Inc.; KBW, Inc.; Oppenheimer Holdings Inc.; Piper Jaffray Companies; Direct Markets Holdings Corp. (formerly Rodman & Renshaw Capital Group, Inc.); and Stifel Financial Corp. These companies were selected because their businesses and operations were comparable to ours throughout or for some portion of the five-year period presented in the chart above. In September 2012, Rodman & Renshaw Capital Group, Inc. filed with FINRA to terminate its broker-dealer operations. In February 2013, KBW, Inc. was acquired by Stifel Financial Corp. In March 2013, Jefferies Group, Inc. was acquired by Leucadia National Corporation. In March 2014, Gleacher & Company, Inc. announced plans to liquidate. The total return calculations reflected in the foregoing chart and table were based on data provided by Russell Investment Group.

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

Item 6. Selected Financial Data

SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial and other data of JMP Group LLC should be read together with Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and the consolidated financial statements and accompanying notes appearing in Item 8 “Financial Statements and Supplementary Data” of this Form 10-K to fully understand factors that may affect the comparability of the information presented below.

The selected consolidated statements of financial condition data as of December 31, 2014 and 2013 and the selected consolidated statements of operations data for each of the three years in the period ended December 31, 2014 have been derived from our audited consolidated financial statements and accompanying notes appearing in Item 8 “Financial Statements and Supplementary Data” of this Form 10-K and should be read together with those consolidated financial statements and accompanying notes.

The selected consolidated statements of financial condition data as of December 31, 2012, 2011 and 2010 and the selected consolidated statement of operations data for the years 2011 and 2010 have been derived from audited consolidated financial statements not included in this Form 10-K. The historical results are not necessarily indicative of the results to be expected in any future period.

(In thousands, except per share data and selected data and operating metrics)

	Year Ended December 31,				
	2014	**2013**	**2012**	**2011**	**2010**
Statement of Operation Data					
Revenues					
Investment banking	$81,070	$74,173	$50,982	$46,114	$45,577
Brokerage	26,916	24,625	21,903	25,461	28,259
Asset management fees	40,620	25,952	15,775	19,785	12,231
Principal transactions	13,848	20,727	10,537	1,615	3,421
Gain on sale, payoff and mark-to-market of loans	(492)	1,806	7,255	16,997	39,363
Net dividend income (loss)	1,001	535	(29)	1,365	2,248
Other income	3,335	798	3,800	4,336	3,466
Non-interest revenues	166,298	148,616	110,223	115,673	134,565
Interest income	40,042	33,346	32,898	33,356	45,162
Interest expense	(23,398)	(30,110)	(39,993)	(35,747)	(33,687)
Net interest income (expense)	16,644	3,236	(7,095)	(2,391)	11,475

Provision for loan losses	(436)	(2,637)	(2,206)	(1,728)	(1,327)
Total net revenues after provision for loan losses	182,506	149,215	100,922	111,554	144,713
Non-interest Expenses					
Compensation and benefits	123,580	102,432	66,415	89,017	95,708
Administration	7,310	8,660	6,186	6,649	5,752
Brokerage, clearing and exchange fees	3,304	3,543	3,806	4,735	5,110
Travel and business development	4,123	4,416	3,387	3,681	3,447
Communications and technology	3,843	3,534	3,503	3,988	3,969
Professional fees	4,738	3,953	3,630	2,955	3,080
Impairment loss on purchased management contract	-	-	-	700	2,750
Other	5,610	5,126	4,461	4,074	3,912
Total non-interest expenses	152,508	131,664	91,388	115,799	123,728
Income (loss) before income tax expense	29,998	17,551	9,534	(4,245)	20,985
Income tax expense (benefit)	8,015	3,950	1,581	(1,632)	8,577
Net income (loss)	21,983	13,601	7,953	(2,613)	12,408
Less: Net income (loss) attributable to noncontrolling interests (1)	8,631	9,973	5,196	(157)	2,805
Net income (loss) attributable to JMP Group Inc.	$13,352	$3,628	$2,757	$(2,456)	$9,603
Net (loss) income per common share:					
Basic	$0.59	$0.16	$0.12	$(0.11)	$0.44
Diluted	$0.57	$0.16	$0.12	$(0.11)	$0.43
Dividends declared and paid per common share:	$0.225	$0.145	$0.135	$0.105	$0.055
Weighted average common shares outstanding:					
Basic	21,481	22,158	22,582	22,118	21,646
Diluted	23,542	23,317	22,906	22,118	22,396

(Dollars in thousands)	**As of and Year Ended December 31,**				
	2014	**2013**	**2012**	**2011**	**2010**
Statement of Financial Condition Data					
Total assets	$1,516,192	$1,121,931	$709,862	$660,663	$638,788
Asset-backed securities issued	1,001,137	716,423	415,456	381,556	351,322
Note payable/ Bond issued/ Line of credit	94,300	63,895	-	19,222	26,209
Total liabilities	1,227,262	884,691	522,558	504,024	496,736
Total equity	288,930	237,240	187,143	156,589	142,052
Selected Data and Operating Metrics (Unaudited)					
Number of employees - end of period	235	235	224	217	215
Number of employees - average	226	226	217	214	218
Net revenues after provision for loan losses per employee	$808	$660	$465	$472	$664
Compensation and benefits as a percentage of net revenues after provision for loan losses (2)	67.7 %	68.6 %	65.8 %	79.2 %	64.4 %
Companies covered by research analysts	448	384	340	342	317
Number of completed investment banking transactions	161	171	123	86	74

(1) Noncontrolling interest relate to the interest of third parties in Harvest Growth Capital LLC (from April 1, 2010), Harvest Growth Capital LLC II (from October 1, 2012), Harvest Capital Credit LLC (from August 18, 2011 through May 2, 2013), Harvest Capital Advisors LLC (from May 1, 2013), Harvest Mortgage Opportunities Partners (from May 1, 2009 through December 31, 2010), CLO I (from April 7, 2009), CLO II (from April 30, 2013), and CLO III (from September 30, 2014).

(2) The computation of compensation and benefits as a percentage of net revenues after provision for loan losses includes salaries, performance-based cash payments and equity awards to our managing directors and other employees, but excludes compensation expense of $0.8 million, and $2.6 million for the years ended December 31, 2011 and 2010, respectively, related to equity awards granted or vested in connection with our initial public offering. The Company had no compensation expense related to equity awards granted or vested in connection with our initial public offering for the years ended December 31, 2012, 2013 and 2014.

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

The following discussion should be read together with our consolidated financial statements and the accompanying notes appearing in Item 8 "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K. In addition to historical information, the following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results and the timing of events may differ significantly from those projected in such forward-looking statements due to a number of factors, including those discussed in Item 1A—"Risk Factors" and elsewhere in this Annual Report on Form 10-K. These forward-looking statements should not be relied upon as representing our views as of any subsequent date and we undertake no obligation to update or revise forward-looking statements to reflect events or circumstances after the date they were made.

Overview

JMP Group LLC, together with its subsidiaries, including JMP Group Inc. (collectively, the “Company”, “we”, or “us“) is a full-service investment banking and asset management firm headquartered in San Francisco, California. We have a diversified business model with a focus on small and middle-market companies and provide:

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

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

Components of Revenues

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

Investment Banking

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

Underwriting Revenues

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

Strategic Advisory Revenues

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

Private Capital Market and Other Revenues

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

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

Brokerage Revenues

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

Asset Management Fees

Asset management fees for hedge funds, hedge funds of funds, private equity funds, HCC LLC (through May 2, 2013), and HCC include base management fees and incentive fees earned from managing our family of investment partnerships and a publicly-traded specialty finance company. Earned base management fees are generally based on the fair value of assets under management or aggregate capital commitments and the fee schedule for each fund and account. We also earn incentive fees based upon the performance of investment funds and accounts. For most of the funds, such fees are based on a percentage of the excess of an investment return over a specified high-water mark or hurdle rate over a defined performance period. For private equity funds, incentive fees are based on a specified percentage of realized gains from the disposition of each portfolio investment in which each investor participates, and we earn after returning contributions by the investors for that portfolio investment and for all other portfolio investments in which each such investor participates that have been disposed of at the time of distribution. Generally, we do not earn management fees on assets calculated on an average assets under management ("AUM") basis.

As of December 31, 2014, the contractual base management fees earned from each of these investment funds or company ranged between 1% and 2% of assets under management or were 2% of aggregate committed capital. The contractual incentive fees were generally (i) 20%, subject to high-water marks, for the hedge funds; (ii) 5% to 20%, subject to high-water marks or a performance hurdle rate, for the hedge funds of funds; (iii) 20%, subject to high-water marks, for Harvest Growth Capital LLC ("HGC") and HGC II. Our asset management revenues are subject to fluctuations due to a variety of factors that are unpredictable, including the overall condition of the economy and the securities markets as a whole and our core sectors. These conditions can have a material effect on the inflows and outflows of assets under management, and the performance of our asset management funds. For example, a significant portion of the performance-based or incentive revenues that we recognize are based on the value of securities held in the funds we manage. The value of these securities includes unrealized gains or losses that may change from one period to another. As we consolidate HGC, HGC II and HCC LLC (through May 2, 2013), the management and incentive fees earned at HCS from HGC, HGC II, and HCC LLC (through May 2, 2013), are eliminated in consolidation.

Asset management fees for the CLOs we manage currently consist only of senior and subordinated base management fees. We recognize base management fees for the CLOs on a monthly basis over the period in which the collateral management services are performed. The base management fees for the CLOs are calculated as a percentage of the average aggregate collateral balances for a specified period. As we consolidate CLO I, CLO II, and CLO III, the management fees earned at JMP Credit Advisors LLC ("JMPCA") from the CLOs are eliminated on consolidation in accordance with accounting principles GAAP. At December 31, 2014, the contractual senior and subordinated base management fees earned from the CLOs were 0.50% of the average aggregate collateral balance for a specified period.

Redemption provisions of our funds require at least 90 days' advance notice, except for one fund that requires twelve months advance notice.

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

(In thousands)	**Assets Under Management [1] at December 31, 2014**	**2013**	**Company's Share of Assets Under Management at December 31, 2014**	**2013**
Funds Managed by HCS or HCAP Advisors:				
Hedge Funds:				
Harvest Opportunity Partners II (2)	$109,345	$123,481	$17,693	$15,847
Harvest Small Cap Partners	438,432	322,883	4,576	1,003
Harvest Franchise Fund (3)	-	114,145	-	2,909
Harvest Agriculture Select (2)	110,726	90,589	22,057	14,578
Harvest Technology Partners (2)	46,301	42,661	14,592	10,311
Harvest Financial Partners	15,439	-	5,710	-
Private Equity Funds:				
Harvest Growth Capital LLC (4)	38,087	35,130	1,845	1,649
Harvest Growth Capital LLC II (4)	92,972	73,552	2,281	1,748
Funds of Funds:				
JMP Masters Fund	41,330	50,686	152	139
REITs:				
New York Mortgage Trust	36,963	34,966	N/A	N/A
Loans:				
Harvest Capital Credit Corporation	115,834	72,361	N/A	N/A
HCS and HCAP Advisors Totals	$1,045,429	$960,454	$68,906	$48,184
CLOs Managed by JMPCA:				
CLO I (4)	397,963	441,533	N/A	N/A
CLO II (4)	331,319	330,431	N/A	N/A
CLO III (4)	360,211	10,003	N/A	N/A
JMPCA Totals	$1,089,493	$781,967	N/A	N/A
JMP Group Inc. Totals	$2,134,922	$1,742,421	$68,906	$48,184

(1) For hedge funds, private equity funds and funds of funds, assets under management represent the net assets of such funds. For New York Mortgage Trust ("NYMT"), assets under management represent certain assets for which HCS earns incentive fees. For CLOs, assets under management represent the sum of the aggregate collateral balance and restricted cash to be reinvested in collateral, upon which management fees are earned.

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

(3)

Harvest Franchise Fund (“HFF”) was liquidated on December 31, 2014 and its assets were distributed to its partners in January 2015.

(4) HGC, HGC II, and CLO I, CLO II, and CLO III were consolidated in the Company’s Statements of Financial Condition at both December 31, 2013 and 2014.

	Funds Managed by HCS			
	Hedge Funds	Private Equity Funds	Funds of Funds	Total
AUM at December 31, 2012	$605,491	$47,354	$42,182	695,027
Contributions	140,050	52,331	25	192,406
Redemptions	(139,006)	-	(3,436)	(142,442)
Distributions from realization event	-	(1,692)	-	(1,692)
Appreciation	87,224	10,689	11,915	109,828
AUM at December 31, 2013	$693,759	$108,682	$50,686	853,127
Contributions	81,713	17,464	-	99,177
Redemptions	(205,307)	-	(12,662)	(217,969)
Distributions from realization event	-	(2,192)	-	(2,192)
Appreciation	150,078	7,105	3,306	160,489
AUM at December 31, 2014	$720,243	$131,059	$41,330	892,632

AUM related to hedge funds, private equity funds and funds of funds increased $39.5 million, or 4.6%, from $853.1 million at December 31, 2013 to $892.6 million at December 31, 2014. This increase was primarily attributed to appreciation of $160.5 million related to all funds managed by HCS. The $218.0 million of redemptions included $119.6 million related to the closing of Harvest Franchise Fund.

AUM related to hedge funds, private equity funds and funds of funds increased $158.1 million, or 22.7%, from $695.0 million at December 31, 2012 to $853.1 million at December 31, 2013. This increase was primarily attributed to appreciation of $109.8 million related to all funds managed by HCS and capital contributions of $51.8 million related to HGC II, a private equity fund that commenced in the fourth quarter of 2012.

(In thousands)	Year Ended December 31, 2014			
	Company's Share of Change in Fair Value	Management Fee	Incentive Fee	TWR (1)
Hedge Funds:				
Harvest Opportunity Partners II (2)	$693	$ 904	$ 145	2.7 %
Harvest Small Cap Partners	1,444	6,752	23,072	30.8 %
Harvest Franchise Fund (3)	166	1,240	843	3.8 %
Harvest Agriculture Select (2)	2,223	1,003	351	8.8 %
Harvest Technology Partners	727	308	35	4.6 %
Harvest Financial Partners	166	41	26	2.0 %
Private Equity Funds:				
Harvest Growth Capital LLC (4)	219	182	-	N/A
Harvest Growth Capital LLC II (4)	12	1,126	-	N/A

Funds of Funds:					
JMP Masters Fund	16	486	55	7.7	%
REITs:					
New York Mortgage Trust	-	-	1,456	N/A	
Loans:					
Harvest Capital Credit Corporation	N/A	1,861	1,805	N/A	
CLOs Managed by JMPCA:					
CLO I (4)	N/A	2,184	N/A	N/A	
CLO II (4)	N/A	1,656	N/A	N/A	
CLO III (4)	N/A	604	N/A	N/A	
Totals	$5,666	$ 18,347	$ 27,788	N/A	

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

(2) HOP II and HAS include managed accounts in which the Company has neither equity investment nor control. These are included as they follow the respective funds' strategy and earn fees.

(3) HFF was liquidated on December 31, 2014 and its assets were distributed to its partners in 2015.

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

(In thousands)	**Year Ended December 31, 2013**			
	Company's Share of Change in Fair Value	**Management Fee**	**Incentive Fee**	**TWR (1)**
Hedge Funds:				
Harvest Opportunity Partners II (2)	$865	$ 1,237	$ 357	5.7 %
Harvest Small Cap Partners	413	5,645	9,097	13.8 %
Harvest Franchise Fund	716	1,107	3,161	25.1 %
Harvest Agriculture Select (2)	1,022	771	326	9.5 %
Harvest Technology Partners (2)	96	567	7	-0.2 %
Harvest Diversified Partners	852	169	83	4.8 %
Private Equity Funds:				
Harvest Growth Capital LLC (3)	(23)	420	30	N/A
Harvest Growth Capital LLC II (3)	556	1,119	-	N/A
Funds of Funds:				
JMP Masters Fund	29	432	1,006	25.9 %
REITs:				
New York Mortgage Trust	-	-	1,103	N/A
Loans:				
Harvest Capital Credit LLC (3)	N/A	108	386	N/A
Harvest Capital Credit Corporation	N/A	699	-	N/A
CLOs Managed by JMPCA:				
CLO I (3)	N/A	2,339	N/A	N/A
CLO II (3)	N/A	863	N/A	N/A
CLO III (3)	N/A	3	N/A	N/A
Totals	$4,526	$ 15,479	$ 15,556	N/A

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

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

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

In thousands)	**Year Ended December 31, 2012** Company's Share of Change in Fair Value	Management Fee	Incentive Fee	TWR (1)
Hedge Funds:				
Harvest Opportunity Partners II (2)	$584	$ 756	$ 540	13.2 %
Harvest Small Cap Partners	430	5,473	3,857	6.1 %
Harvest Franchise Fund	(110)	814	4	-6.7 %
Harvest Agriculture Select (2)	438	255	273	19.0 %
Harvest Technology Partners (2)	(13)	953	618	-3.6 %
Harvest Diversified Partners	1,320	170	149	9.0 %
Private Equity Funds:				
Harvest Growth Capital LLC (3)	205	599	266	N/A
Harvest Growth Capital LLC II (3)	(2)	184	-	N/A
Funds of Funds:				
JMP Masters Fund	7	487	-	8.3 %
REITs:				
New York Mortgage Trust	-	500	900	N/A
Loans:				
Harvest Capital Credit LLC (3)	N/A	228	525	N/A
CLOs Managed by JMPCA:				
CLO I (3)	N/A	2,376	N/A	N/A
Totals	$2,859	$ 12,795	$ 7,132	N/A

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

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

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

Principal Transactions

Principal transaction revenues includes realized and unrealized net gains and losses resulting from our principal investments, which include investments in equity and other securities for our own account and as the general partner of funds managed by us, warrants we may receive from certain investment banking assignments, as well as limited partner investments in private funds managed by third parties. In addition, we invest a portion of our capital in a portfolio of equity securities managed by HCS and in side-by-side investments in the funds managed by us. In certain cases, we also co-invest alongside our institutional clients in private transactions resulting from our investment banking business. Principal transaction revenues also include unrealized gains and losses on the private equity securities owned by HGC and HGC II, two private equity funds managed by HCS which are consolidated in our financial statements, as well as unrealized gains and losses on the investments in private companies sponsored by HCS and JMP Capital, and unrealized gains and losses on the warrants, options and equity securities owned by HCC LLC (through May 2, 2013).

Gain on Sale, Payoff and Mark-to-market of Loans

Gain on sale, payoff and mark-to-market of loans consists of gains from the sale and payoff of loans collateralizing asset-backed securities at JMP Credit and small business loans at HCC LLC (through May 2, 2013). Gains are recorded when the proceeds exceed the carrying value of the loan. Gain on sale, payoff and mark-to-market of loans also consists of lower of cost or market adjustments arising from loans held for sale and fair value market adjustments of the small business loans. Losses are recorded for the loan held for sale when the carrying value exceeds fair value. Changes to the fair value of the small business loans were recorded to this line item, when HCC LLC was consolidated.

Net Dividend Income

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

Other Income

Other income includes loan restructuring fees at JMP Credit, revenues from equity method investments, and revenues from fee-sharing arrangements with, and fees earned to raise capital for third-party investment partnerships, or funds. In 2012, other income also includes non-recurring revenues associated with the conclusion of HCS's advisory relationship with NYMT.

Interest Income

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

Interest Expense

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

Provision for Loan Losses

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

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

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

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

Components of Expenses

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

Compensation and Benefits

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

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

Administration

Administration expense primarily includes the cost of hosted conferences, non-capitalized systems and software expenditures, insurance, business and rent tax (non-income), office supplies, recruiting, regulatory fees, and underwriting expenses paid by HCAP Advisors in connection with an agreement with HCC.

Brokerage, Clearing and Exchange Fees

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

Travel and Business Development

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

Communications and Technology

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

Professional Fees

Professional fees primarily relate to legal and accounting professional services.

Other Expenses

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

Non-controlling Interest

Non-controlling interest for the year ended December 31, 2014 includes the interest of third parties in HGC I, HGC II, CLO I, CLO II, CLO III (effective September 30, 2014) and HCAP Advisors, partially-owned subsidiaries consolidated in our financial statements. Non-controlling interest for the year ended December 31, 2013 includes the interest of third parties in HGC I, HGC II, CLO I, CLO II (effective April 3, 2013), HCC LLC (through May 2, 2013) and HCAP Advisors (effective May 1, 2013), partially-owned subsidiaries consolidated in our financial statements. Non-controlling interest for the year ended December 31, 2012 includes the interest of third parties in CLO I, HGC, HGC II (effective October 1, 2012) and HCC LLC, the partially-owned subsidiaries consolidated in our financial statements.

HCS currently manages several asset management funds, which are structured as limited partnerships, and is the general partner of each. The Company assesses whether the partnerships meet the definition of a variable interest entities (“VIEs”) in accordance with ASC 810-10-15-14, and whether the Company qualifies as the primary beneficiary. Funds determined not to meet the definition of a VIE are considered voting interest entities for which the rights of the limited partners are evaluated to determine if consolidation is necessary. 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 HGC and HGC II, 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 HGC II. The Company accounts for its investments in these non-consolidated funds under the equity method of accounting.

The limited liability company agreements of HGC and HGC II do not provide for the right of the members to remove the manager by a simple majority vote of the non-affiliated members and therefore the manager (with a minority interest in the limited liability company) is deemed to control the funds. As a result, we consolidated HGC from its inception on April 1, 2010 and HGC II from its inception on October 1, 2012.

On August 6, 2010, the Company transferred 109 subordinated notes of CLO I to certain employees in exchange for their interests in JMP Credit. As a result of the aforementioned transfer, we own approximately 94% of the subordinated notes of CLO I.

On April 30, 2013, entities sponsored by JMP Group Inc. closed on a $343.8 million CLO. The senior notes offered in this transaction (the “Secured Notes”) were issued by CLO II, a special purpose Cayman vehicle, and co-issued in part by JMP Credit Advisors CLO II LLC, a special purpose Delaware vehicle, and were backed by a diversified portfolio of broadly syndicated leveraged loans. The Company, through a wholly-owned subsidiary, manages CLO II and owns $23.3 million, or 98%, of the subordinated notes of the Issuer (the “Subordinated Notes”).

On December 11, 2013 CLO III closed on a $100.0 million warehouse credit agreement with BNP Paribas. CLO III is a special purpose vehicle whose debt, upon funding, was secured by a diversified portfolio of broadly syndicated leveraged loans. On September 30, 2014, CLO III closed the $370.5 million CLO transaction. The proceeds from the close of the CLO were used to payoff and retire the warehouse facility. A third party and employees of JMPCA purchased subordinated notes in CLO III, reducing the Company’s investment in the subordinated notes to $4.7 million, or 13.5%. As of December 31, 2014, the Company owned 13.5% of the subordinated notes.

HCC LLC launched on August 18, 2011 to make direct investments in the form of subordinated debt and, to a lesser extent, senior debt and minority equity investments, in privately-held U.S. small to mid-size companies. The Company and affiliates owned approximately 59% of HCC LLC at December 31, 2012. The Company consolidated HCC LLC into its consolidated financial statements. In 2013, the outstanding limited liability company units of HCC LLC were converted into a number of shares of HCC common stock. On May 2, 2013, HCC priced its initial pubic offering, which reduced the Company’s ownership of HCC to 11.6%. At such date, the Company no longer consolidated HCC.

HCAP Advisors was formed on December 18, 2012. HCAP Advisors appointed JMP Group LLC as its Manager effective May 1, 2013, and began offering investment advisory services. The Company owns 51% equity interest in the entity.

Historical Results of Operations

The following table sets forth our historical results of operations for the years ended December 31, 2014, 2013 and 2012 and is not necessarily indicative of the results to be expected for any future period.

(In thousands)	Year Ended December 31,			Change from 2013 to 2014		Change from 2012 to 2013	
	2014	**2013**	**2012**	**$**	**%**	**$**	**%**
Revenues							
Investment banking	$81,070	$74,173	$50,982	$6,897	9.3 %	$23,191	45.5 %
Brokerage	26,916	24,625	21,903	2,291	9.3 %	2,722	12.4 %
Asset management fees	40,620	25,952	15,775	14,668	56.5 %	10,177	64.5 %
Principal transactions	13,848	20,727	10,537	(6,879)	-33.2 %	10,190	96.7 %
(Loss) gain on sale, payoff and mark-to-market of loans	(492)	1,806	7,255	(2,298)	-127.2 %	(5,449)	-75.1 %
Net dividend income (loss)	1,001	535	(29)	466	87.1 %	564	n/a
Other income	3,335	798	3,800	2,537	317.9 %	(3,002)	-79.0 %
Non-interest revenues	166,298	148,616	110,223	17,682	11.9 %	38,393	34.8 %
Interest income	40,042	33,346	32,898	6,696	20.1 %	448	1.4 %
Interest expense	(23,398)	(30,110)	(39,993)	6,712	-22.3 %	9,883	-24.7 %
Net interest (expense) income	16,644	3,236	(7,095)	13,408	414.3 %	10,331	145.6 %
Provision for loan losses	(436)	(2,637)	(2,206)	2,201	-83.5 %	(431)	-19.5 %
Total net revenues after provision for loan losses	182,506	149,215	100,922	33,291	22.3 %	48,293	47.9 %
Non-interest expenses							
Compensation and benefits	123,580	102,432	66,415	21,148	20.6 %	36,017	54.2 %
Administration	7,310	8,660	6,186	(1,350)	-15.6 %	2,474	40.0 %
Brokerage, clearing and exchange fees	3,304	3,543	3,806	(239)	-6.7 %	(263)	-6.9 %
Travel and business development	4,123	4,416	3,387	(293)	-6.6 %	1,029	30.4 %
Communication and technology	3,843	3,534	3,503	309	8.7 %	31	0.9 %
Professional fees	4,738	3,953	3,630	785	19.9 %	323	8.9 %
Other	5,610	5,126	4,461	484	9.4 %	665	14.9 %
Total non-interest expenses	152,508	131,664	91,388	20,844	15.8 %	40,276	44.1 %
Income before income tax expense	29,998	17,551	9,534	12,447	70.9 %	8,017	84.1 %
Income tax expense	8,015	3,950	1,581	4,065	102.9 %	2,369	149.8 %
Net income	21,983	13,601	7,953	8,382	61.6 %	5,648	71.0 %
Less: Net income attributable to non-controlling interest	8,631	9,973	5,196	(1,342)	-13.5 %	4,777	91.9 %
Net income attributable to JMP Group Inc.	$13,352	$3,628	$2,757	$9,724	268.0 %	$871	31.6 %

Overview

Year Ended December 31, 2014, Compared to Year Ended December 31, 2013

Total net revenues after provision for loan losses increased $33.3 million, or 22.3%, from $149.2 million for the year ended December 31, 2013 to $182.5 million for the year ended December 31, 2014, resulting from a $17.7 million increase in non-interest revenues, a $13.4 million increase in net interest income, and a decline in provision for loan losses of $2.2 million.

Total non-interest revenues increased $17.7 million, or 11.9%, resulting from an increase in asset management fees of $14.7 million, an increase in investment banking income of $6.9 million, partially offset by a decline in principle transactions of $6.9 million.

Net interest income increased $13.4 million, or 414.3%, from $3.2 million for the year ended December 31, 2013 to $16.6 million for the same period in 2014. This increase in net interest income is primarily attributed to an increase in net interest earned at JMP Credit, partially offset by net interest expense related to the bond issued in January 2014.

Total non-interest expenses increased $20.8 million, or 15.8%, from $131.7 million for the year ended December 31, 2013 to $152.5 million for the year ended December 31, 2014, primarily due to an increase in compensation and benefits of $21.1 million.

Net income attributable to JMP Group Inc. increased $9.7 million, or 268.0%, from $3.6 million for the year ended December 31, 2013 to $13.4 million for the year ended December 31, 2014 and includes income tax expense of $4.0 million and $8.0 million for the years ended December 31, 2013 and 2014, respectively.

Year Ended December 31, 2013, Compared to Year Ended December 31, 2012

Total net revenues after provision for loan losses increased $48.3 million, or 47.9%, from $100.9 million for the year ended December 31, 2012 to $149.2 million for the year ended December 31, 2013, resulting from an increase in total non-interest revenues of $38.4 million, and an increase in net interest income of $10.3 million, partially offset by an increase in provision for loan losses of $0.4 million.

Total non-interest revenues increased $38.4 million, or 34.8%, primarily due to increases in investment banking revenues of $23.2 million, an increase of asset management fees of $10.2 million, an increase of principal transactions of $10.2 million, partially offset by a decrease in gain on sale, payoff and mark-to-market of loans of $5.5 million.

Net interest income increased $10.3 million, or 145.6%, from net interest income expense of $7.1 million for the year ended December 31, 2012 to net interest income of $3.2 million for the same period in 2013. This increase in net interest income is primarily attributed to an increase in net interest earned at JMP Credit, partially offset by $3.6 million net interest expense related to the bond issued in January 2013.

Total non-interest expenses increased $40.3 million, or 44.1%, from $91.4 million for the year ended December 31, 2012 to $131.7 million for the year ended December 31, 2013, primarily due to an increase in compensation and benefits of $36.0 million.

Net income attributable to JMP Group Inc. increased $0.9 million, or 31.6%, from $2.8 million for the year ended December 31, 2012 to $3.6 million for the year ended December 31, 2013 and includes income tax expense of $1.6 million and $4.0 million for the years ended December 31, 2012 and 2013, respectively.

Operating Net Income (Non-GAAP Financial Measure)

Management uses Operating Net Income as a key, non-GAAP metric when evaluating the performance of our core business strategy and ongoing operations, as management believes that this metric appropriately illustrates the operating results of our core operations and business activities. Operating Net Income is derived from our segment reported results and is the measure of segment profitability on an after-tax basis used by management to evaluate our performance. This non-GAAP measure is presented to enhance investors' overall understanding of our current financial performance. Additionally, management believes that Operating Net Income is a useful measure because it allows for a better evaluation of the performance of our ongoing business and facilitates a meaningful comparison of the company's results in a given period to those in prior and future periods.

However, Operating Net Income should not be considered a substitute for results that are presented in a manner consistent with GAAP. A limitation of the non-GAAP financial measures presented is that, unless otherwise indicated, the adjustments concern gains, losses or expenses that we generally expect to continue to recognize, and the adjustment of these items should not always be construed as an inference that these gains or expenses are unusual, infrequent or non-recurring. Therefore, management believes that both the GAAP measures of its financial performance and the respective non-GAAP measures should be considered together. Operating Net Income may not be comparable to a similarly titled measure presented by other companies.

Operating Net Income is a non-GAAP financial measure that adjusts the Company's GAAP net income as follows:

(i) reverses stock-based compensation expense recognized under GAAP related to historical equity awards granted in prior periods, as management generally evaluates performance by considering the full expense of equity awards granted in the period in which such compensation was awarded, even if the expense of that award will be recognized in future periods under GAAP;

(ii) recognizes 100% of the cost of deferred compensation, including non-cash stock-based compensation expense, in the period for which such compensation was awarded, instead of recognizing such cost over the vesting period as required under GAAP, in order to match compensation expense with the actual period upon which the compensation was based;

(iii) excludes the non-cash net amortization of liquidity discounts on loans held and asset-backed securities issued by JMP Credit Corporation, due to scheduled contractual principal repayments, which is not representative of the Company's core operating results or core business activities, for periods prior to that ended September 30, 2013;

(iv) reverses net unrealized gains and losses on strategic equity investments and warrants;

(v) excludes unrealized mark-to-market gains or losses on the investment portfolio at HCC, due to its adoption of investment company accounting in preparation for its pending initial public offering as a business development company;

(vi) presents revenues and expenses on a basis that deconsolidates HGC, HGC II and HCC LLC. HGC and HGC II are investment funds that HCS manages; we own a relatively small percentage of these funds, even though they are consolidated under GAAP;

(vii) excludes general loan loss reserves on the CLOs; and

(viii) assumes a combined federal, state and local income tax rate of 38% for the years ended December 31, 2013 and 2014, and 42% for the year ended December 31, 2012.

Discussed below is Operating Net Income by segment. This information is reflected in a manner utilized by management to assess the financial operations of the Company's various business lines.

	Year Ended December 31, 2014	
(In thousands)	**Broker-Dealer**	**Eliminations**

		Asset Management	Corporate Credit	Operating Platforms	Investment Income	Corporate Costs		Total Segments
Revenues								
Investment banking	$81,158	$ -	$ -	$81,158	-	$ -	$ (88)	$81,070
Brokerage	26,916	-	-	26,916	-	-	-	26,916
Asset management related fees	-	45,639	5,266	50,905	(50)	-	(5,692)	45,263
Principal transactions	-	-	-	-	6,720	-	-	6,720
Loss on sale, payoff and mark-to-market of loans	-	-	-	-	(492)	-	-	(492)
Net dividend income	-	-	-	-	998	-	-	998
Net interest income	-	-	-	-	16,682	-	-	16,682
Provision for loan losses	-	-	-	-	1,265	-	-	1,265
Adjusted net revenues	108,074	45,639	5,266	158,979	25,223	-	(5,780)	178,422
Non-interest expenses								
Non-interest expenses	90,643	41,010	4,672	136,325	4,683	14,512	(5,692)	149,828
Less: Non-controlling interest	-	786	-	786	1,342	-	-	2,128
Operating pre-tax net income	17,431	3,843	594	21,868	19,198	(14,512)	(88)	26,466
Income tax expense (assumed rate of 38%)	6,624	1,462	226	8,312	7,294	(5,513)	(33)	10,060
Operating net income (loss)	$10,807	$ 2,381	$ 368	$13,556	$ 11,904	$ (8,999)	$ (55)	$16,406

(In thousands)	Year Ended December 31, 2013 Broker-Dealer	Asset Management	Corporate Credit	Operating Platforms	Investment Income	Corporate Costs	Eliminations	Total Segments
Revenues								
Investment banking	$74,508	$-	$-	$74,508	$-	$-	$(335)	$74,173
Brokerage	24,625	-	-	24,625	-	-	-	24,625
Asset management related fees	-	29,598	4,735	34,333	-	-	(5,429)	28,904
Principal transactions	-	-	-	-	7,859	-	-	7,859
Gain on sale, payoff and mark-to-market of loans	-	-	-	-	1,716	-	-	1,716
Net dividend income	-	-	-	-	1,213	-	-	1,213
Net interest income	-	-	-	-	16,471	-	-	16,471
Provision for loan losses	-	-	-	-	(932)	-	-	(932)
Adjusted net revenues	99,133	29,598	4,735	133,466	26,327	-	(5,764)	154,029
Non-interest expenses								
Non-interest expenses	84,749	29,346	3,691	117,786	4,864	16,039	(5,744)	132,945
Less: Non-controlling interest	-	(1,731)	-	(1,731)	977	-	-	(754)
Operating pre-tax net income	14,384	1,983	1,044	17,411	20,486	(16,039)	(20)	21,838
Income tax expense (assumed rate of 38%)	5,466	754	397	6,617	7,785	(6,095)	(8)	8,299
Operating net income (loss)	$8,918	$ 1,229	$ 647	$ 10,794	$ 12,701	$(9,944)	$(12)	$13,539

(In thousands)	Year Ended December 31, 2012 Broker-Dealer	Asset Management	Corporate Credit	Operating Platforms	Investment Income	Corporate Costs	Eliminations	Total Segments
Revenues								
Investment banking	$51,174	$-	$-	$51,174	$-	$-	$-	$51,174
Brokerage	21,903	-	-	21,903	-	-	-	21,903
Asset management related fees	53	23,177	4,064	27,294	-	-	(5,419)	21,875
Principal transactions	-	-	-	-	6,320	-	-	6,320
Gain on sale, payoff and mark-to-market of loans	-	-	-	-	6,578	-	-	6,578
Net dividend income	-	-	-	-	206	-	-	206
Net interest income	-	-	-	-	19,313	-	-	19,313
Provision for loan losses	-	-	-	-	(2,207)	-	-	(2,207)
Adjusted net revenues	73,130	23,177	4,064	100,371	30,210	-	(5,419)	125,162
Non-interest expenses								
Non-interest expenses	67,152	20,686	2,996	90,834	(3,071)	13,647	(5,419)	95,991

Less: Non-controlling interest	-	-	-	-	670	-	-	670
Operating pre-tax net income	5,978	2,491	1,068	9,537	32,611	(13,647)	-	28,501
Income tax expense (assumed rate of 42%)	2,511	1,046	449	4,006	13,695	(5,732)	-	11,969
Operating net income (loss)	$3,467	$ 1,445	$ 619	$5,531	$ 18,916	$(7,915)	$ -	$16,532

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The following table reconciles the operating net income to Total Segments operating pre-tax net income, to consolidated pre-tax net income (loss) attributable to JMP Group Inc., and to consolidated net income (loss) attributable to JMP Group Inc, for the years ended December 31, 2014, 2013 and 2012.

(In thousands)	**Year Ended December 31,**		
	2014	**2013**	**2012**
Operating net income	$16,406	$13,539	$16,532
Addback of Income tax expense (assumed rate of 38% for 2014 and 2013, and 42% for 2012)	10,060	8,299	11,969
Total Segments adjusted operating pre-tax net income	$26,466	$21,838	$28,501
Subtract / (Add back)			
Stock options	1,917	920	-
Compensation expense - RSUs	3,744	2,823	2,492
Deferred compensation program accounting adjustment	(4,483)	(6,170)	(6,985)
HCC IPO administrative expense	-	450	(450)
Net unrealized loss/ (gain) on strategic equity investments and warrants.	2,570	(593)	525
General loan loss reserve for CLO II / CLO III	1,351	1,241	-
Net amortization of liquidity discounts on loans and asset-backed securities issued	-	14,979	29,208
Unrealized mark-to-market (gain)/loss - HCC	-	610	(627)
Gain on loan portfolio acquired	-	-	-
Consolidated pre-tax net income attributable to JMP Group Inc.	$21,367	$7,578	$4,338
Income tax expense	8,015	3,950	1,581
Consolidated Net Income attributable to JMP Group Inc.	$13,352	$3,628	$2,757

When evaluating the performance of our core business strategy and ongoing operations, management also reviewed the Adjusted Operating Net Income through December 31, 2013, which excluded the non-cash gains and losses recognized by JMP Credit Corp due to the sale or payoff of loans originally included in the portfolio we acquired in April 2009, as well as the specific reserve for loan losses related to this portfolio of loans. Management believed this metric to be instructive to assess the company's core earnings over time without regard to a relatively volatile revenue stream. Earnings derived from sales or payoffs of acquired loans, while once substantial, are no longer material, as the portfolio of acquired loans is almost entirely liquidated. Therefore, the segments are now based on operating net income. The reconciling items for the years ended December 31, 2013 from adjusted operating net income to operating net income include adding back non-cash gains on the acquired loan portfolio, the specific reserve on loans from the portfolio, and the related compensation expense. Adjusted Operating Net Income for the years ended December 31, 2012 and 2013 were $15.6 million and $13.9 million, respectively.

Year Ended December 31, 2014, Compared to Year Ended December 31, 2013

Revenues

Investment Banking

Investment banking revenues increased $6.9 million, or 9.3%, from $74.2 million for the year ended December 31, 2013 to $81.1 million for the same period in 2014. As a percentage of total net revenues after provision for loan losses, investment banking revenues decreased from 49.7% for the year ended December 31, 2013 to 44.4% for the year ended December 31, 2014.

Our segment reported investment banking revenues, primarily earned in our Broker-Dealer segment, increased $6.9 million, or 9.3%, from $74.2 million for the year ended December 31, 2013 to $81.1 million for the same period in 2014, primarily attributed to increase in public equity and strategic advisory revenues, partially offset by declines in debt and convertible revenues and private capital market and other revenues. Public equity underwriting revenues increased $15.0 million, or 37.8%, from $39.8 million for the year ended December 31, 2013 to $54.8 million for the year ended December 31, 2014. We executed 123 public equity underwriting transactions in 2013 compared to 120 in 2014. We acted as a lead manager on 33 transactions in 2014, compared to 30 in 2013. Our strategic advisory revenues increased $7.6 million, or 67.3%, from $11.1 million for the year ended December 31, 2013 to $18.7 million for the year ended December 31, 2014. The increase was attributed to additional transactions in 2014. We executed 17 strategic advisory transactions in 2014, compared to 12 in 2013. Our debt and convertible revenues decreased $14.0 million, or 74.4%, from $18.8 million for the year ended December 31, 2013 to $4.8 million for the year ended December 31, 2014. The decline was attributed to fewer transactions. We executed 32 debt and convertible transactions in 2013 compared to 20 in the same period in 2014. Private capital market and other revenues decreased $1.7 million, from $4.5 million for the year ended December 31, 2013 to $2.8 million for the year ended December 31, 2014. We executed four private placement transactions in both 2013 and 2014. The declines were attributed to less revenue per transaction. As a percentage of total segment net revenues, investment banking revenues decreased from 48.2% for the year ended December 31, 2013 to 45.4% for the year ended December 31, 2014.

Brokerage Revenues

Brokerage revenues earned in our Broker-Dealer segment increased $2.3 million, or 9.3%, from $24.6 million for the year ended December 31, 2013 to $26.9 million for the year ended December 31, 2014. The increase was primarily driven by gains in our trading portfolio account. Brokerage revenues decreased as a percentage of total net revenues after provision for loan losses, from 16.5% for the year ended December 31, 2013 to 14.7% for the year ended December 31, 2014. On an operating basis, brokerage revenues decreased from 16.0% for the year ended December 31, 2013 to 15.1% for the year ended December 31, 2014 as a percentage of segment net revenue after provision for loan losses.

Asset Management Related Fees

(In thousands)	**Year Ended December 31, 2014**	**2013**
Base management fees:		
Fees reported as asset management fees	$13,192	$10,813
Fees earned at HGC, HGC II and HCC LLC	1,308	1,737
Total base management fees	14,500	12,550
Incentive fees:		
Fees reported as asset management fees	$27,428	$15,139
Fees earned at HGC, HGC II and HCC LLC	-	417
Total incentive fees	27,428	15,556
Other fee income:		
Fundraising fees and other	$3,335	$798
Total other fee income	3,335	798
Asset management related fees:		
Fees reported as asset management fees	$40,620	$25,952
Fees reported as other income	3,335	798
Fees earned at HGC, HGC II and HCC LLC	1,308	2,154
Total Segment asset management related fee revenues	$45,263	$28,904

Fees reported as asset management fees increased $14.6 million, or 56.5%, from $26.0 million for the year ended December 31, 2013 to $40.6 million for the year ended December 31, 2014. As a percentage of total net revenues after provision for loan losses, asset management revenues increased from 17.4% for the year ended December 31, 2013 to 22.3% for the year ended December 31, 2014. Fees reported as other income increased $2.5 million, or 317.9%, from $0.8 million for the year ended December 31, 2013 to $3.3 million for the year ended December 31, 2014, mainly driven by revenues from equity method investments. As a percentage of total net revenues after provision for loan losses, other income increased from 0.5% for the year ended December 31, 2013 to 1.8% for the same period in 2014.

Total segment asset management related fees include base management fees and incentive fees for our funds and CLOs under management, as well as other income from fee sharing arrangements with, and fees earned to raise capital for, third-party investment partnerships or funds. Total segment asset management related fees is a non-GAAP financial measure that adjusts our asset management related fees by reversing the elimination of those fees in the consolidation of HGC, HGC II and HCC LLC (through May 1, 2013). Total segment asset management fee revenues are reconciled to the GAAP measure, total asset management fee revenues, in the table above. We believe that presenting operating asset management related fees is useful to investors as a means of assessing the performance of our combined asset management activities, including fundraising and other services for third parties. We believe that segment asset management-related fee revenues provides useful information by indicating the relative contributions of base management fees and performance-related incentive fees, thus facilitating a comparison of those fees in a given period to those in prior and future periods. We also believe that asset management-related fee revenue is a more meaningful measure than standalone asset management fees as reported, because asset management-related fee revenues represent the combined impact of the various asset management activities on the Company’s total net revenues.

Total segment asset management related fee revenue increased $16.4 million from $28.9 million for the year ended December 31, 2013 to $45.3 million for the year ended December 31, 2014. The increase was attributed to increases in base management fees, incentive fees, and other fee income. Base management fees were $12.6 million and $14.5 million for the years ended December 31, 2013 and 2014, respectively. Base management fees reported as asset management fees increased $2.4 million from $10.8 million for the year ended December 31, 2013 to $13.2 million for the year ended December 31, 2014, and was driven by the increases of $1.2 million related to HCC, $1.1 million related Harvest Small Cap Partners (“HSCP”), partially offset by $0.3 million reduction in fees related to Harvest Opportunity Partners (“HOP II”). Other income increased $2.5 million, from $0.8 million to $3.3 million, driven by a $2.3 million increase in a revenue share agreement in 2014. Total incentive fees increased $11.8 million from $15.6 million for the year ended December 31, 2013 to $27.4 million for the same period in 2014. The increase in incentive fees was driven by an increase of $14.0 million related to HSCP, an increase of $1.8 million related to HCC, partially offset by a decline of $2.3 million related to HFF, and $1.0 million related by JMP Masters. On a segment reporting basis, asset management related fees increased from 18.8% for the year ended December 31, 2013 to 25.4% for the year ended December 31, 2014 as a percentage of operating net revenues after provision for loan losses.

Principal Transactions

Principal transaction revenues decreased $6.9 million from $20.7 million for the year ended December 31, 2013 to $13.8 million for the same period in 2014. As a percentage of total net revenues after provision for loan losses, principal transaction revenues decreased from 13.9% for the year ended December 31, 2013 to 7.6% for the year ended December 31, 2014.

Total segment principal transaction revenues decreased $1.2 million from $7.9 million for the year ended December 31, 2013 to $6.7 million for the same period in 2014. Total segment principal transaction revenue is a non-GAAP financial measure that aggregates our segment reported principal transaction revenues across each segment. We believe that presenting total segment principal transaction revenues is useful to investors as a means of assessing the performance of our combined investment activities. The principal transaction revenues for both 2013 and 2014 were based entirely in our Investment Income segment. Total segment principal transaction revenues are reconciled to the GAAP measure, total principal transaction revenues, in the table below.

	Year Ended December 31,	
	2014	**2013**
(In thousands)		
Equity and other securities excluding non-controlling interest	$2,417	$2,301
Warrants and other investments	(5)	1,706
Investment partnerships	4,308	3,852
Total Segment principal transaction revenues	6,720	7,859
Operating adjustment addbacks	(1,190)	569
Non-controlling interest in HGC, HGC II and HCC LLC (through May 2, 2013)	8,318	12,299
Total principal transaction revenues	$13,848	$20,727

The decrease reflects less revenue from our warrants and other investments, partially offset by additional revenue from investment partnerships and equity and other securities excluding non-controlling interest. Revenues from warrants and other investments decreased by $1.7 million from $1.7 million for the year ended December 31, 2013 to revenues of $5 thousand for the year ended December 31, 2014. The decline was primarily related to $1.0 million decline in our investment in a private equity fund managed by a third party, which invests in the growth technology sector and $1.1 million decrease related to one of our warrants. Revenues from our investment partnerships increased $0.4 million from $3.9 million for the year ended December 31, 2013 to $4.3 million for the year ended December 31, 2014, driven by $1.2 million increase related to HAS. Revenues from equity and other securities increased $0.1 million from $2.3 million for the year ended December 31, 2013 to $2.4 million for the same period in 2014. On a segment reporting basis, as a percentage of total net revenues after provision for loan losses, principal transaction revenues decreased from 5.1% for the year ended December 31, 2013 to 3.8% for the year ended December 31, 2014.

Gain and Loss on Sale, Payoff and Mark-to-market of Loans

Gain on sale, payoff and mark-to-market of loans decreased $2.3 million from a $1.8 million gain for the year ended December 31, 2013 to a $0.5 million loss for the same period in 2014. As a percentage of total net revenues after provision for loan losses, gain on sale, payoff and mark-to-market of loans decreased from 1.2% for the year ended December 31, 2013 to 0.3% for the year ended December 31, 2014.

Gain on sale, payoff and mark-to-market of loans was earned in our Investment Income segment. On a segment reporting basis, the gain on sale, payoff and mark-to-market of loans in our Investment Income segment excludes the financial impact of gains or losses due to the sale or payoff of loans originally included in the CLO I portfolio acquired in April 2009. The segment reported gain on sale, payoff and mark-to-market of loans also excludes unrealized mark-to-market gains or losses on the investment portfolio at HCC LLC (through May 2, 2013). Our segment reported gain on sale, payoff and mark-to-market of loans in the Investment Income segment decreased $2.2 million from $1.7 million for the year ended December 31, 2013 to a $0.5 million loss for the year ended December 31, 2014. Gain on sale, payoff and mark-to-market of loans decreased from 1.1% for the year ended December 31, 2013 to 0.3% for the year ended December 31, 2014 as a percentage of total segment net revenues.

Net Dividend Income

Net dividend income increased from $0.5 million for the year ended December 31, 2013 to $1.0 million for the same period in 2014, primarily related to dividends from our HCC investment. Dividends earned on our investment in HCC LLC were eliminated in consolidation prior to May 2, 2013.

Our net dividend income was earned in our Investment Income segment. On a segment reporting basis, net dividend income decreased from $1.2 million to $1.0 million for the years ended December 31, 2013 and 2014, respectively, and primarily comprised of dividends from our investment in HCC LLC and HCC.

As a percentage of total segment net revenues, net dividend income decreased from 0.8% for the year ended December 31, 2013 to 0.6% for the year ended December 31, 2014.

Net Interest Income (Expense)

(In thousands)	Year Ended December 31, 2014	2013
CLO I loan contractual interest income	$15,000	$18,233
CLO I ABS issued contractual interest expense	(4,030)	(4,390)
Net CLO I contractual interest	10,970	13,843
CLO II loan contractual interest income	$15,399	$8,341
CLO II ABS issued contractual interest expense	(6,784)	(4,841)
Net CLO II contractual interest	8,615	3,500
CLO III loan contractual interest income	$7,181	$-
CLO III ABS issued contractual interest expense	(3,026)	-
Net CLO III contractual interest	4,155	-
Bond Payable interest expense	(7,301)	(3,610)
Other interest income	243	2,738
Total Segment net interest income	$16,682	$16,471
CLO I loan liquidity discount accretion	-	569
CLO I ABS liquidity discount amortization	-	(15,548)
Net CLO I liquidity discount amortization	-	(14,979)
HCC LLC interest income	-	2,393
HCC LLC interest expense	-	(630)
Net HCC LLC interest income	-	1,763
Other interest income adjustment	(38)	(19)
Total net interest income	$16,644	$3,236

Net interest income increased $13.4 million, or 414.3% from $3.2 million for the year ended December 31, 2013 to $16.6 million for the year ended December 31, 2014. The increase primarily was attributed to the CLO I liquidity discount amortization in 2013. Net interest income included liquidity discount amortization of $15.0 million for the year ended December 31, 2013. Net interest income also included bond payable interest expense of $7.3 million and $3.6 million for the years ended December 31, 2014 and 2013, respectively. As a percentage of total net revenues after provision for loan losses, net interest expense increased from 2.2% for the year ended December 31, 2013 to 9.1% for the year ended December 31, 2014.

Total segment net interest income increased from $16.5 million for the year ended December 31, 2013 to $16.7 million for the year ended December 31, 2014. Our total segment net interest income excludes net amortization of liquidity discounts on loans and asset-backed securities issued. Net interest income is earned primarily in our JMP

Credit segment, and largely reflects net CLO contractual interest. Total segment net interest income is a non-GAAP financial measure that aggregates our segment reported net interest income (expense) across each segment. We believe that presenting total segment net interest income is useful to investors as a means of assessing the performance of JMP Group's combined credit activities. Total segment net interest income is reconciled to the GAAP measure, total net interest expense, in the table above. As a percentage of total segment segment net revenues, net interest income decreased from 10.7% for the year ended December 31, 2013 to 9.3% for the year ended December 31, 2014.

The following table sets forth contractual interest income and expense related to CLO loans and ABS issued and their weighted average contractual interest rates:

(In thousands)	Year Ended December 31, 2014				
	Interest Income (Expense)	Average CLO Loan (CLO ABS Issued) Balance	Weighted Average Contractual Interest Rate	Weighted Average LIBOR	Spread to Weighted Average LIBOR
CLO I loan contractual interest income	$15,000	$391,875	3.78 %	0.23 %	3.55 %
CLO I ABS issued contractual interest expense	(4,030)	(402,723)	1.12 %	0.23 %	0.89 %
CLO II loan contractual interest income	15,399	326,391	4.65 %	0.23 %	4.42 %
CLO II ABS issued contractual interest expense	(6,784)	(319,105)	2.10 %	0.23 %	1.87 %
CLO III loan contractual interest income	7,181	142,414	4.97 %	0.25 %	4.72 %
CLO III ABS issued contractual interest expense	(3,026)	(253,158)	2.49 %	0.25 %	2.24 %
Net CLO contractual interest	$23,740	N/A	N/A	N/A	N/A

(In thousands)	Year Ended December 31, 2013				
	Interest Income (Expense)	Average CLO Loan (CLO ABS Issued) Balance	Weighted Average Contractual Interest Rate	Weighted Average LIBOR	Spread to Weighted Average LIBOR
CLO I loan contractual interest income	$18,233	$409,772	4.39 %	0.28 %	4.11 %
CLO I ABS issued contractual interest expense	(4,390)	(422,651)	1.02 %	0.28 %	0.74 %
CLO II loan contractual interest income	8,341	182,117	4.52 %	0.35 %	4.17 %
CLO II ABS issued contractual interest expense	(4,841)	(320,000)	2.21 %	0.35 %	1.86 %
Net CLO contractual interest	$17,343	N/A	N/A	N/A	N/A

Provision for Loan Losses

Provision for loan losses decreased $2.2 million, or 83.5%, from $2.6 million for the year ended December 31, 2013 to $0.4 million for the same period in 2014. The decline was primarily attributed to the historically low default rate environment experienced in our CLOs and the leveraged loan market, in general, over recent years. As a result of the recent historical results, we reduced our provision for loan losses. As a percent of net revenues after provision for loan losses, provision for loan losses decreased from 1.8% for the year ended December 31, 2013 to 0.2% for the year ended December 31, 2014.

Total segment provision for loan losses decreased from $0.9 million for the year ended December 31, 2013 to a reversal of $1.3 million for the year ended December 31, 2014. Total segment provision for loan losses is a non-GAAP financial measure that aggregates our segment reported provision for loan losses across each segment. Our total segment provision for loan losses was solely recognized in our Investment Income segment in 2014, and in 2013. As a percent of total segment net revenues, segment provision for loan losses was 0.6% and 0.7% for the years ended December 31, 2013 and 2014, respectively.

Expenses

Non-Interest Expenses

Compensation and Benefits

Compensation and benefits, which includes employee payroll, taxes and benefits, performance-based cash bonus and commissions as well as equity-based compensation to our employees and managing directors, increased $21.2 million, or 20.6%, from $102.4 million for the year ended December 31, 2013 to $123.6 million for the year ended December 31, 2014.

Employee payroll, taxes and benefits, and consultant fees, increased $3.5 million, or 9.4%, from $37.4 million for the year ended December 31, 2013 to $40.9 million for the year ended December 31, 2014, primarily due to the effect of base pay increases made during 2014.

Performance-based bonus and commissions increased $13.4 million, or 22.4%, from $59.9 million for the year ended December 31, 2013 to $73.3 million for the same period in 2014. The increase was primarily due to an increase in total net revenues after provision for loan losses from $149.2 million for the year ended December 31, 2013 to $182.5 million for the same period in 2013.

Equity-based compensation increased $4.0 million, or 74.1%, from $5.4 million for the year ended December 31, 2013 to $9.4 million for the year ended December 31, 2014. The increase is primarily attributed to $2.8 million of expense related to RSUs issued in connection with the 2013 annual bonus, and an increase in stock option expenses of $1.0 million.

Compensation and benefits as a percentage of net revenues after provision for loan losses decreased from 68.6% for the year ended December 31, 2013 to 67.7% for the same period in 2014.

Compensation and benefits in our operating net income, which includes 100% of deferred compensation expense and excludes RSU expense, increased from $104.4 million for the year ended December 31, 2013 to $121.0 million for the year ending December 31, 2014. This increase was attributed to the performance-based bonus and commissions. See "*Operating Net Income (Non-GAAP Financial Measure),*" above.

Administration

Administration expenses decreased $1.4 million, or 15.6%, from $8.7 million for the year ended December 31, 2013 to $7.3 million for the year ended December 31, 2014. The decrease primarily related to $2.5 million underwriting expenses paid by HCAP Advisors in connection with an agreement with HCC in 2013, partially offset by commercial rent tax associated with our New York property. As a percentage of total net revenues after provision for loan losses, administration expense was 5.8% and 4.0% of total net revenues after provision for loan losses for the years ended December 31, 2013 and 2014, respectively.

Brokerage, Clearing and Exchange Fees

Brokerage, clearing and exchange fees decreased $0.2 million, or 6.7%, from $3.5 million for the year ended December 31, 2013 to $3.3 million for the year ended December 31, 2014. The decrease was primarily due to a decline in trading volume. As a percentage of total net revenues after provision for loan losses, our brokerage, clearing and exchange fees decreased from 2.4% for the year ended December 31, 2013 to 1.8% for the year ended 2014.

Travel and Business Development

Travel and business development expense decreased $0.3 million, or 6.6%, from $4.4 million for the year ended December 31, 2013 to $4.1 million for the year ended December 31, 2014. The decline reflects an increase of reimbursements from clients, which offset travel expense. Travel expense increased $0.2 million, from $5.7 million for the year ended December 31, 2013 to $5.9 million for the year ended December 31, 2014, reflecting a 3.5% increase in travel. Reimbursements from clients, which offset travel expense, were $1.2 million and $1.8 million for the years ended December 31, 2013 and 2014, respectively. As a percentage of total net revenues after provision for loan losses, travel and business development expense was 3.0% and 2.3% for the years ended December 31, 2013 and 2014, respectively.

Communications and Technology

Communications and technology expense increased $0.3 million, or 8.7%, from $3.5 million for the year ended December 31, 2013 to $3.8 million for the year ended December 31, 2014. As a percentage of total net revenues after provision for loan losses, communications and technology expense decreased from 2.4% for the year ended December 31, 2013 to 2.1% for the year ended December 31, 2014.

Professional Fees

Professional fees increased $0.7 million, or 19.9%, from $4.0 million for the year ended December 31, 2013 to $4.7 million for the year ended December 31, 2014. The increase primarily was attributed to $0.8 million professional costs relating to the conversion of our Company to a publicly-traded-partnership. As a percentage of total net revenues after provision for loan losses, professional fees remained at 2.6% for both the years ended December 31, 2013 and 2014.

Other Expenses

Other expenses increased $0.5 million, or 9.4%, from $5.1 million for the year ended December 31, 2013 to $5.6 million for the year ended December 31, 2014. As a percentage of total net revenues after provision for loan losses, other expenses decreased from 3.4% for the year ended December 31, 2013 to 3.1% for the same period in 2014.

Net Income (Loss) Attributable to Non-controlling Interest

Net income attributable to non-controlling interest decreased $1.4 million from $10.0 million for the year ended December 31, 2013 to $8.6 million of income for the year ended December 31, 2014. Non-controlling interest for the year ended December 31, 2014 includes the interest of third parties in CLO I, CLO II, CLO III (effective September 30, 2014), HGC, HGC II, and HCAP Advisors, all partially-owned subsidiaries consolidated in our financial statements. Non-controlling interest for the year ended December 31, 2013 includes the interest of third parties in CLO I, CLO II (effective April 30, 2013), HGC, HGC II, HCC LLC (effective through May 2, 2013), and HCAP Advisors (effective May 1, 2013), all partially-owned subsidiaries consolidated in our financial statements. The decrease in net income attributable to non-controlling interest reflected declines of $3.3 million related to HGC and HGC II, $1.1 million related to HCC LLC, which was deconsolidated on May 2, 2013, partially offset by a $2.5 million increase at HCAP Advisors.

Provision for Income Taxes

For the years ended December 31, 2014 and 2013, we recorded a tax expense of $8.0 million and $4.0 million, respectively. The effective tax rate for the years ended December 31, 2014 and 2013 was 26.7% and 22.5%, respectively. The increase in the effective tax rate was primarily attributable to deconsolidation of HCC LLC, which was consolidated for financial reporting purposes but not for tax purposes.

Our operating net income assumes a combined federal, state and local income tax rate of 38% for both the years ended December 31, 2013 and 2014, respectively. Segment income tax expense increased $1.8 million from $8.3 million for the year ended December 31, 2013 to $10.1 million for the year ended December 31, 2014.

Year Ended December 31, 2013, Compared to Year Ended December 31, 2012

Revenues

Investment Banking

Investment banking revenues increased $23.2 million, or 45.5%, from $51.0 million for the year ended December 31, 2012 to $74.2 million for the same period in 2013. As a percentage of total net revenues after provision for loan losses, investment banking revenues decreased from 50.5% for the year ended December 31, 2012 to 49.7% for the year ended December 31, 2013.

Our segment reported investment banking revenues, primarily earned in our Broker-Dealer segment, increased $23.0 million, or 44.9%, from $51.2 million for the year ended December 31, 2012 to $74.2 million for the same period in 2013. Private capital market and other revenues decreased $5.7 million, from $10.2 million for the year ended December 31, 2012 to $4.5 million for the year ended December 31, 2013. We executed 12 private placement transactions in 2012 compared to four in 2013. Public equity underwriting revenues increased $10.8 million, or 37.3%, from $29.0 million for the year ended December 31, 2012 to $39.8 million for the year ended December 31, 2013. We executed 82 public equity underwriting transactions in 2012 compared to 123 in 2013. We acted as a lead manager on 17 transactions in 2012 and 30 in 2013. Our debt and convertible revenues increased $15.7 million, or 503.6%, from $3.1 million for the year ended December 31, 2012 to $18.8 million for the year ended December 31, 2013. We executed 18 debt and convertible transactions in 2012 compared to 32 in the same period in 2013. Our strategic advisory revenues increased $2.3 million, or 25.4%, from $8.9 million for the year ended December 31, 2012 to $11.1 million for the year ended December 31, 2013, due to larger transactions. We executed 12 strategic advisory transactions in both 2012 and 2013. As a percentage of segment reported net revenues, investment banking revenues increased from 40.9% for the year ended December 31, 2012 to 48.2% for the year ended December 31, 2013.

Brokerage Revenues

Brokerage revenues earned in our Broker-Dealer segment increased $2.7 million, or 12.4%, from $21.9 million for the year ended December 31, 2012 to $24.6 million for the year ended December 31, 2013. The increase was primarily the result of increased trading volume. Brokerage revenues decreased as a percentage of total net revenues after provision for loan losses, from 21.7% for the year ended December 31, 2012 to 16.5% for the year ended December 31, 2013. On a segment reported basis, brokerage revenues decreased from 17.5% for the year ended December 31, 2012 to 16.0% for the year ended December 31, 2013 as a percentage of segment net revenue after provision for loan losses.

Asset Management Related Fees

(In thousands)	**Year Ended December 31, 2013**	**2012**
Base management fees:		
Fees reported as asset management fees	$10,813	$9,433
Fees earned at HGC, HGC II and HCC LLC (through May 2, 2013)	1,737	1,112
Total base management fees	12,550	10,545
Incentive fees:		
Fees reported as asset management fees	$15,139	$6,342
Fees earned at HGC, HGC II and HCC LLC (through May 2, 2013)	417	1,188
Total incentive fees	15,556	7,530
Other fee income:		
Fundraising fees	$103	$109
New York Mortgage Trust termination fee	-	1,735
Other income	695	1,956
Total other fee income	798	3,800
Asset management related fees:		
Fees reported as asset management fees	$25,952	$15,775
Fees reported as other income	798	3,800
Fees earned at HGC, HGC II and HCC LLC (through May 2, 2013)	2,154	2,300
Total Segment asset management related fee revenues	$28,904	$21,875

Fees reported as asset management fees increased $10.2 million, or 64.5%, from $15.8 million for the year ended December 31, 2012 to $26.0 million for the year ended December 31, 2013. As a percentage of total net revenues after provision for loan losses, asset management revenues increased from 15.6% for the year ended December 31, 2012 to 17.4% for the year ended December 31, 2013. Fees reported as other income decreased $3.0 million, or 79.0% from $3.8 million for the year ended December 31, 2012 to $0.8 million for the year ended December 31, 2013. As a percentage of total net revenues after provision for loan losses, other income decreased from 3.8% for the year ended December 31, 2012 to 0.5% for the same period in 2013.

Total segment asset management related fees include base management fees and incentive fees for our funds and CLOs under management, as well as other income from fee sharing arrangements with, and fees earned to raise capital for, third-party investment partnerships or funds. Total segment asset management related fees is a non-GAAP financial measure that adjusts our asset management related fees by reversing the elimination of those fees in the consolidation of HGC, HGC II and HCC LLC (through May 1, 2013). Total segment asset management fee revenues are reconciled to the GAAP measure, total asset management fee revenues, in the table above. We believe that presenting operating asset management related fees is useful to investors as a means of assessing the performance of our combined asset management activities, including fundraising and other services for third parties. We believe that segment asset management-related fee revenues provides useful information by indicating the relative contributions of base management fees and performance-related incentive fees, thus facilitating a comparison of those fees in a given period to those in prior and future periods. We also believe that asset management-related fee revenue is a more meaningful measure than standalone asset management fees as reported, because asset management-related fee revenues represent the combined impact of the various asset management activities on the Company’s total net revenues.

Total segment asset management related fee revenue increased $7.0 million from $21.9 million for the year ended December 31, 2012 to $28.9 million for the year ended December 31, 2013. The increase was attributed to increases in base management fees and incentive fees, partially offset by an increase in other fee income. Base management fees were $10.5 million and $12.6 million for the years ended December 31, 2012 and 2013, respectively. Base management fees reported as asset management fees increased $1.4 million from $9.4 million for the year ended December 31, 2012 to $10.8 million for the year ended December 31, 2013, and was driven by the increases of $0.5 million related to HOP II, $0.5 million related to HAS, $0.3 million related to HFF, partially offset by the reduction of $0.4 million fees related to HTP. Total incentive fees increased $8.1 million from $7.5 million for the year ended December 31, 2012 to $15.6 million for the same period in 2013. The increase in incentive fees was driven by an increase of $5.2 million related to HSCP and an increase of $3.2 million related to HFF. Other income decreased $3.0 million, resulting from the $1.7 million termination fee received in 2012 associated with the December 31, 2011 termination of our advisory agreement with NYMT. Also contributing to the decrease was a $0.8 million management fee received in 2012 due to expiration of certain revenue sharing arrangements. Our segment asset management related fees increased from 17.5% for the year ended December 31, 2012 to 18.8% for the year ended December 31, 2013 as a percentage of segment net revenues after provision for loan losses.

Principal Transactions

Principal transaction revenues increased $10.2 million from $10.5 million for the year ended December 31, 2012 to $20.7 million for the same period in 2013. As a percentage of total net revenues after provision for loan losses, principal transaction revenues increased from 10.4% for the year ended December 31, 2012 to 13.9% for the year ended December 31, 2013.

Total segment principal transaction revenues increased $1.6 million from $6.3 million for the year ended December 31, 2012 to $7.9 million for the same period in 2013. Total segment principal transaction revenue is a non-GAAP financial measure that aggregates our segment reported principal transaction revenues across each segment. We believe that presenting total segment principal transaction revenues is useful to investors as a means of assessing the performance of our combined investment activities. The principal transaction revenues for both 2012 and 2013 were based entirely in our Investment Income segment. Total segment principal transaction revenues are reconciled to the GAAP measure, total principal transaction revenues, in the table below.

	Year Ended December 31,	
	2013	**2012**
(In thousands)		
Equity and other securities excluding non-controlling interest	$2,301	$2,704
Warrants and other investments	1,706	577
Investment partnerships	3,852	3,039
Total Segment principal transaction revenues	7,859	6,320
Operating adjustment addbacks	569	1,102
Non-controlling interest in HGC, HGC II and HCC LLC (through May 2, 2013)	12,299	3,115
Total principal transaction revenues	$20,727	$10,537

The increase reflects higher revenue from our warrants and other investments and investment partnerships, partially offset by a decrease in equity investment and other securities. Revenues from warrants and other investments increased by $1.1 million from $0.6 million for the year ended December 31, 2012 to revenues of $1.7 million for the year ended December 31, 2013. The increase was primarily related to $1.4 million increase in our investment in a private equity fund managed by a third party, which invests in the growth technology sector and $0.6 million increase related to one of our warrants. These increases were partially offset by a $0.8 million gain in redemptions from Class D Preferred Units of Sanctuary Wealth Services LLC ("Sanctuary") during 2012. Revenues from our investment partnerships increased $0.9 million from $3.0 million for the year ended December 31, 2012 to $3.9 million for the year ended December 31, 2013, driven by $0.8 million increase related to HFF and $0.6 million related to HAS. Revenues from equity and other securities decreased $0.4 million from $2.7 million for the year ended December 31, 2012 to $2.3 million for the same period in 2013, primarily due to lower gain earned on our principal investment portfolio. As a percentage of total segment net revenues after provision for loan losses, total segment principal transaction revenues increased from 5.0% for the year ended December 31, 2012 to 5.1% for the year ended December 31, 2013.

Gain on Sale, Payoff and Mark-to-market of Loans

Gain on sale, payoff and mark-to-market of loans decreased $5.5 million, or 75.1%, from $7.3 million for the year ended December 31, 2012 to $1.8 million for the same period in 2013, with $1.7 million of the gain generated at JMP Credit and $0.1 million generated at HCC LLC. At JMP Credit, during the year ended December 31, 2013, 168 loans were sold or paid off, resulting in a total net gain of $2.1 million. Of the total net gain, $1.3 million was related to 91 loan payoffs, where the borrowers repaid the loans at a premium to our carrying value. The remaining $0.8 million related to 77 loans, 27 of which were sold at a discount to our carrying value, 44 of which were sold at par, which was a premium to our carrying value and six of which were related to terminations of unfunded lines of credit. Historically, the gains on sale and payoff of loans have related predominantly to the sale of loans from the CLO I portfolio acquired in April 2009, and the related liquidity discount. The reinvestment period for CLO I ended in May 2013, at which time, the loans from the CLO I acquisition had predominantly been sold. In addition, the mark-to-market of loans at HCC LLC (consolidated through May 2, 2013) also contributed to this gain. The combination of the reduced CLO I acquisition portfolio and the deconsolidation of HCC LLC have resulted in the decline on sale, payoff and mark-to-market of loans. While we expect further gains from loan payoffs and sales in future periods, these revenues are highly unpredictable as we are not actively marketing the loans collateralized by asset-backed securities for sale. As a percentage of total net revenues after provision for loan losses, gain on sale, payoff and mark-to-market of loans decreased from 7.2% for the year ended December 31, 2012 to 1.2% for the year ended December 31, 2013.

Gain on sale, payoff and mark-to-market of loans was earned in our Investment Income segment. On a segment reporting basis, the gain on sale, payoff and mark-to-market of loans in our Investment Income segment excludes the financial impact of gains or losses due to the sale or payoff of loans originally included in the CLO I portfolio acquired by JMP Group in April 2009. The segment reported gain on sale, payoff and mark-to-market of loans also excludes unrealized mark-to-market gains or losses on the investment portfolio at HCC LLC. Our segment reported gain on sale, payoff and mark-to-market of loans in the Investment Income segment decreased $4.9 million from $6.6 million for the year ended December 31, 2012 to $1.7 million for the year ended December 31, 2013. Gain on sale, payoff and mark-to-market of loans decreased from 5.3% for the year ended December 31, 2012 to 1.1% for the year ended December 31, 2013 as a percentage of total segment net revenues.

Net Dividend Income

Net dividend income increased from a $29 thousand loss for the year ended December 31, 2012 to $0.5 million for the same period in 2013, primarily related to dividends from our HCC investment. Dividends earned on our investment in HCC LLC were eliminated in consolidation prior to May 2, 2013.

Our net dividend income was earned in our Investment Income segment. On a segment reporting basis, net dividend income increased from $0.2 million to $1.2 million for the years ended December 31, 2012 and 2013, respectively, and primarily comprised of dividends from our investment in HCC LLC and HCC.

As a percentage of total segment net revenues, net dividend income increased from 0.2% for the year ended December 31, 2012 to 0.8% for the year ended December 31, 2013.

Net Interest Income (Expense)

(In thousands)	Year Ended December 31, 2013	Year Ended December 31, 2012
CLO I loan contractual interest income	$18,233	$21,547
CLO I ABS issued contractual interest expense	(4,390)	(5,202)
Net CLO I contractual interest	13,843	16,345
CLO II loan contractual interest income	$8,341	$-
CLO II ABS issued contractual interest expense	(4,841)	-
Net CLO I contractual interest	3,500	-
Bond Payable interest expense	(3,610)	-
Other interest income	2,738	2,968
Total Segment net interest income	$16,471	$19,313
CLO I loan liquidity discount accretion	569	4,691
CLO I ABS liquidity discount amortization	(15,548)	(33,899)
Net CLO I liquidity discount amortization	(14,979)	(29,208)
HCC LLC interest income	2,393	3,774
HCC LLC interest expense	(630)	(974)
Net HCC LLC interest income	1,763	2,800
Other interest income adjustment	(19)	-
Total net interest expense	$3,236	$(7,095)

Net interest income increased $10.3 million, or 145.6% from interest expense of $7.1 million for the year ended December 31, 2012 to income of $3.2 million for the year ended December 31, 2013. Net interest expense included liquidity discount amortization of $29.2 million and $15.0 million for the years ended December 31, 2012 and December 31, 2013, respectively. Net interest income also included bond payable interest expense of $3.6 million for the year ended December 31, 2013. As a percentage of total net revenues after provision for loan losses, net interest expense decreased from 7.0% for the year ended December 31, 2012 to 2.2% for the year ended December 31, 2013.

Total segment net interest income decreased from $19.3 million for the year ended December 31, 2012 to $16.5 million for the year ended December 31, 2013. Our total segment net interest income excludes net amortization of liquidity discounts on loans and asset-backed securities issued. Net interest income is earned primarily in our JMP Credit segment, and largely reflects net CLO contractual interest. Total segment net interest income is a non-GAAP financial measure that aggregates our segment reported net interest income (expense) across each segment. We believe that presenting total segment net interest income is useful to investors as a means of assessing the performance of JMP Group's combined credit activities. Total segment net interest income is reconciled to the GAAP measure, total net interest expense, in the table above. As a percentage of total segment net revenues, net interest income decreased from 15.4% for the year ended December 31, 2012 to 10.7% for the year ended December 31, 2013.

The following table sets forth contractual interest income and expense related to CLO loans and ABS issued and their weighted average contractual interest rates:

(In thousands)	**Year Ended December 31, 2013**							
	Interest Income (Expense)	**Average CLO Loan (CLO ABS Issued) Balance**	**Weighted Average Contractual Interest Rate**		**Weighted Average LIBOR**		**Spread to Weighted Average LIBOR**	
CLO I loan contractual interest income	$15,000	$409,772	4.39	%	0.28	%	4.11	%
CLO I ABS issued contractual interest expense	(4,030)	(422,651)	1.02	%	0.28	%	0.74	%
CLO II loan contractual interest income	15,399	182,117	4.52	%	0.35	%	4.17	%
CLO II ABS issued contractual interest expense	(6,784)	(320,000)	2.21	%	0.35	%	1.86	%
Net CLO contractual interest	$19,585	N/A	N/A		N/A		N/A	

(In thousands)	**Year Ended December 31, 2012**							
	Interest Income (Expense)	**Average CLO Loan (CLO ABS Issued) Balance**	**Weighted Average Contractual Interest Rate**		**Weighted Average LIBOR**		**Spread to Weighted Average LIBOR**	
CLO I loan contractual interest income	$21,547	$428,166	4.95	%	0.45	%	4.50	%
CLO I ABS issued contractual interest expense	(4,390)	(431,003)	1.19	%	0.45	%	0.74	%
Net CLO contractual interest	$17,157	N/A	N/A		N/A		N/A	

Provision for Loan Losses

Provision for loan losses increased $0.4 million, or 19.5%, from $2.2 million for the year ended December 31, 2012 to $2.6 million for the same period in 2013. As a percent of net revenues after provision for loan losses, provision for loan losses decreased from 2.2% for the year ended December 31, 2012 to 1.8% for the year ended December 31, 2013.

Total segment provision for loan losses decreased from $2.2 million for the year ended December 31, 2012 to $0.9 million for the year ended December 31, 2013. Total segment provision for loan losses is a non-GAAP financial measure that aggregates our segment reported provision for loan losses across each segment. Our total segment provision for loan losses was solely recognized in our Investment Income segment in 2013, and in 2012. As a percent of total segment net revenues, segment provision for loan losses decreased from 1.8% for the year ended December 31, 2012 to 0.6% for the same period in 2013.

Expenses

Non-Interest Expenses

Compensation and Benefits

Compensation and benefits, which includes employee payroll, taxes and benefits, performance-based cash bonus and commissions as well as equity-based compensation to our employees and managing directors, increased $36.0 million, or 54.2%, from $66.4 million for the year ended December 31, 2012 to $102.4 million for the year ended December 31, 2013.

Employee payroll, taxes and benefits, and consultant fees, increased $2.8 million, or 8.1%, from $34.4 million for the year ended December 31, 2012 to $37.2 million for the year ended December 31, 2013, primarily due to an increase in average headcount and the effect of a full year of base pay increases made during 2013.

Performance-based bonus and commissions increased $30.4 million, or 103.1%, from $29.5 million for the year ended December 31, 2012 to $59.9 million for the same period in 2013. The increase was primarily due to an increase in total net revenues after provision for loan losses from $100.9 million for the year ended December 31, 2012 to $149.2 million for the same period in 2013.

Equity-based compensation increased $2.9 million, or 116.0%, from $2.5 million for the year ended December 31, 2012 to $5.4 million for the year ended December 31, 2013. The change reflects an increase in performance-based RSU expense of $0.2 million, stock option expenses of $0.9 million, and expense related to the RSUs issued in connection with the 2011 annual bonus of $1.7 million.

Compensation and benefits as a percentage of net revenues after provision for loan losses increased from 65.8% for the year ended December 31, 2012 to 68.5% for the same period in 2013.

Compensation and benefits in our segment operating net income, which includes 100% of deferred compensation expense and excludes RSU expense, increased from $70.3 million for the year ended December 31, 2012 to $104.4 million for the year ending December 31, 2013. This increase was attributed to the performance-based bonus and commissions. See "*Operating Net Income (Non-GAAP Financial Measure),*" above.

Administration

Administration expenses increased $2.5 million, or 40.0%, from $6.2 million for the year ended December 31, 2012 to $8.7 million for the year ended December 31, 2013. The increase related to $2.5 million underwriting expenses paid by HCAP Advisors in connection with an agreement with HCC. As a percentage of total net revenues after provision for loan losses, administration expense was 6.1% and 5.8% of total net revenues after provision for loan losses for the years ended December 31, 2012 and 2013, respectively.

Brokerage, Clearing and Exchange Fees

Brokerage, clearing and exchange fees decreased $0.3 million, or 6.9%, from $3.8 million for the year ended December 31, 2012 to $3.5 million for the year ended December 31, 2013. The decrease was primarily due to a decrease in trading volume. As a percentage of total net revenues after provision for loan losses, our brokerage, clearing and exchange fees decreased from 3.8% for the year ended December 31, 2012 to 2.4% for the year ended 2013.

Travel and Business Development

Travel and business development expense increased $1.0 million, or 30.4%, from $3.4 million for the year ended December 31, 2012 to $4.4 million for the year ended December 31, 2013. The increase primarily reflects a $1.3 million increase in travel expense, driven by a 13.4% increase in travel volume. Reimbursements from clients, which offset travel expense, were $1.0 million and $1.2 million for the years ended December 31, 2012 and 2013, respectively. As a percentage of total net revenues after provision for loan losses, travel and business development expense was 3.4% and 3.0% for the years ended December 31, 2012 and 2013, respectively.

Communications and Technology

Communications and technology expense was $3.5 million for the years ended December 31, 2012 and 2013. As a percentage of total net revenues after provision for loan losses, communications and technology expense decreased from 3.5% for the year ended December 31, 2012 to 2.4% for the year ended December 31, 2013.

Professional Fees

Professional fees increased $0.4 million, or 8.9%, from $3.6 million for the year ended December 31, 2012 to $4.0 million for the year ended December 31, 2013. As a percentage of total net revenues after provision for loan losses, professional fees decreased from 3.6% for the year ended December 31, 2012 to 2.7% for the year ended December 31, 2013.

Other Expenses

Other expenses increased $0.7 million, or 14.9%, from $4.5 million for the year ended December 31, 2012 to $5.1 million for the year ended December 31, 2013. As a percentage of total net revenues after provision for loan losses, other expenses increased from 4.4% for the year ended December 31, 2012 to 3.4% for the same period in 2013.

Net Income (Loss) Attributable to Non-controlling Interest

Net income attributable to non-controlling interest increased $4.8 million from $5.2 million for the year ended December 31, 2012 to $10.0 million of income for the year ended December 31, 2013. Non-controlling interest for the year ended December 31, 2013 includes the interest of third parties in CLO I, CLO II (effective April 30, 2013), HGC, HGC II (effective October 1, 2012), HCC LLC (effective August 8, 2011 through May 2, 2013), and HCAP Advisors (effective May 1, 2013), all partially-owned subsidiaries consolidated in our financial statements. Non-controlling interest for the year ended December 31, 2012 includes the interest of third parties in CLO I, HGC, HGC II (effective October 1, 2012), and HCC LLC, all partially-owned subsidiaries consolidated in our financial statements. The increase in net income attributable to non-controlling interest reflected increases of $8.0 million related to HGC and HGC II, partially offset by $1.7 million loss at HCAP Advisors and $1.4 million decrease in HCC LLC, which was deconsolidated on May 2, 2013.

Provision for Income Taxes

For the years ended December 31, 2013 and 2012, we recorded a tax expense of $4.0 million and $1.6 million, respectively. The effective tax rate for the years ended December 31, 2013 and 2012 was 22.5% and 16.6%, respectively. The increase in the effective tax rate was primarily attributable to deconsolidation of HCC LLC, which was consolidated for financial reporting purposes but not for tax purposes.

Our operating net income assumes a combined federal, state and local income tax rate of 42% and 38% for the years ended December 31, 2012 and 2013, respectively. Segment income tax expense decreased $2.8 million from $12.0 million for the year ended December 31, 2012 to $8.3 million for the year ended December 31, 2013.

Financial Condition, Liquidity and Capital Resources

In the section that follows, we discuss the significant changes in the components of our balance sheet, cash flows and capital and liquidity for the year ended December 31, 2014 to demonstrate where our capital is invested and the financial condition of the Company.

Overview

As of December 31, 2014, we had net liquid assets of $51.2 million, consisting of cash and cash equivalents, proceeds from short sales on deposit, receivable from clearing broker, marketable securities owned, and general partner investments in hedge funds managed by HCS, net of marketable securities sold but not yet purchased, accrued compensation, deferred compensation paid in January 2015 and non-controlling interest. We have satisfied our capital and liquidity requirements primarily through the net proceeds from the initial public offering, the January 2013 issuance of the 2013 Senior Notes, the January 2014 issuance of the 2014 Senior Notes, and internally generated cash from operations. Most of our financial instruments, other than loans collateralizing asset-backed securities issued, loans held for investment and asset-backed securities issued, are recorded at fair value or amounts that approximate fair value. At December 31, 2014 and December 31, 2013, we had Level 3 assets (financial instruments measured on a recurring basis whose fair value was determined using unobservable inputs that are not corroborated by market data) of $138.7 million and $112.1 million, respectively, which represented 9.1% and 10.0% of total assets, respectively. Level 3 assets increased by $26.6 million, due to the purchased new assets of $20.0 million, and the unrealized gain of $10.4 million, partially offset by the sale of certain private equity securities of $2.2 million.

Liquidity Considerations Related to CLOs

Our maximum exposure to loss of capital on the CLOs is the original April 7, 2009 investment of $4.0 million plus the $1.8 million paid to repurchase the contingent consideration related to the CLO I acquisition, $23.3 million related to CLO II, and $4.7 million investment related to CLO III plus any earnings retained in the CLOs since the acquisition date. However, for U.S. federal tax purposes, the CLOs are treated as a disregarded entity such that the taxable income earned in the CLO is taxable to us. If the CLO is in violation of certain coverage tests, mainly any of its over-collateralization ratios, residual cash flows otherwise payable to us as owners of the subordinated notes would be required to be used to buy additional collateral or repay indebtedness senior to us in the securitization. This could require us to pay income tax on earnings prior to the residual cash flow distributions to us.

The CLOs must comply with certain asset coverage tests, such as tests that restrict the amount of discounted obligations and obligations rated “CCC” or lower it can hold. During any time the CLO exceeds such a limit, our ability, as the manager of CLO I, to sell assets and reinvest available principal proceeds into substitute assets is restricted. In addition, defaulted obligations, discounted assets (those purchased below 85% of their par value) and assets rated “CCC” or lower in excess of applicable limits in the CLOs investment criteria are not given full par credit for purposes of calculation of the CLO over-collateralization (“OC”) tests. We were in compliance with all OC tests on the determination dates since February 2010. However, we have been in violation and may be in the future. If CLOs were to violate the Class E test, or any more senior tests, we would be required to pay down the most senior notes with the residual cash flows until the violation was cured. In the most extreme case, if the CLO were in violation of the most senior OC test, the Class A note holders would have the ability to declare an event of default and cause an acceleration of all principal and interest outstanding on the notes.

For financial reporting purposes, the loans and asset-backed securities of the CLOs are consolidated on our balance sheet. The loans are reported at their cost adjusted for amortization of liquidity discounts and credit reserves, both of which were recorded at the CLO I acquisition date, purchase discounts and allowance for loan losses. The asset-backed securities are recorded net of liquidity discount only. At December 31, 2014, we had $1,038.8 million of loans collateralizing asset-backed securities, net, $50.6 million of restricted cash and $2.9 million of interest receivable funded by $1,001.1 million of asset-backed securities issued, net, and interest payable of $4.1 million. These assets and liabilities represented 72.0% of total assets and 81.9% of total liabilities respectively, reported on our Consolidated Statement of Financial Condition at December 31, 2014.

The tables below summarize the loans held by the CLOs grouped by range of outstanding balance, Moody's Investors Services, Inc. rating category, and industry as of December 31, 2014.

(Dollars in thousands)	**As of December 31, 2014**		
Range of Outstanding Balance	**Number of Loans**	**Maturity Date**	**Total Principal**
$0 - $500	42	1/2015-1/2022	$17,140
$500 - $2,000	364	12/2014-1/2022	502,893
$2,000 - $5,000	142	4/2016-12/2021	394,639
$5,000 - $10,000	16	11/2015-6/2020	110,816
$10,000+	2	6/2017-2/2021	21,912
Total	566		$1,047,400

(Dollars in thousands)	**As of December 31, 2014**		
Moody's Rating Category	**Number of Loans**	**Outstanding Balance**	**% of Outstanding Balance**
B1	126	$248,359	23.7%
B2	234	390,825	37.3%
B3	67	102,896	9.8%
Ba1	9	22,869	2.2%
Ba2	40	72,441	6.9%
Ba3	75	177,587	17.0%
Baa2	1	1,824	0.2%
Baa3	2	11,028	1.1%
CA	1	253	0.0%
Caa1	8	16,825	1.6%
Caa2	3	2,493	0.2%
Total	566	$1,047,400	100%

(Dollars in thousands)	As of December 31, 2014			
Industry	**Number of Loans**	**Outstanding Balance**	**% of Outstanding Balance**	
High Tech Industries	39	$ 71,133	6.8	%
Chemicals, Plastics & Rubber	19	57,431	5.5	%
Services: Business	29	53,774	5.2	%
Beverage, Food & Tobacco	23	52,793	5.1	%
Healthcare, Education & Childcare	15	44,197	4.3	%
Services: Consumer	20	41,957	4.0	%
Hotels, Gaming & Leisure	27	41,716	4.0	%
Automobile	17	37,966	3.6	%
Healthcare & Pharmaceuticals	24	36,276	3.5	%
Energy: Oil & Gas	20	34,349	3.4	%
Banking, Finance, Insurance & Real Estate	22	33,858	3.2	%
Aerospace & Defense	20	31,289	3.0	%
Capital Equipment	17	27,056	2.6	%
Consumer Goods: Durable	15	25,862	2.5	%
Electronics	10	25,639	2.4	%
Telecommunications	15	23,485	2.2	%
Media: Broadcasting & Subscription	13	23,207	2.2	%
Automotive	13	22,474	2.1	%
Construction & Building	12	20,001	1.9	%
Diversified/Conglomerate Service	14	19,555	1.9	%
Containers, Packaging & Glass	13	18,922	1.8	%
Retail Store	7	18,907	1.8	%
Environmental Industries	13	18,380	1.8	%
Hotels, Motels, Inns and Gaming	5	18,276	1.7	%
Metals & Mining	11	18,248	1.7	%
Printing & Publishing	9	18,142	1.7	%
Retailer	9	17,969	1.7	%
Energy: Electricity	8	16,930	1.6	%
Leisure , Amusement, Motion Pictures & Entertainment	7	15,386	1.5	%
Retail	13	15,053	1.4	%
Media: Diversified & Production	6	12,830	1.2	%
Utilities	7	11,372	1.1	%
Broadcasting and Entertainment	3	10,633	1.0	%
Personal & Non-Durable Consumer Products	6	10,319	1.0	%
Consumer Goods: Non-durable	7	9,924	0.9	%
Transportation: Cargo	7	9,879	0.9	%
Banking	4	9,574	0.9	%
Finance	4	8,243	0.8	%
Personal, Food & Misc Services	6	8,175	0.8	%
Transportation: Consumer	3	6,583	0.6	%
Ecological	5	6,359	0.6	%
Diversified/Conglomerate Manufacturing	8	6,060	0.6	%
Forest Products & Paper	3	5,844	0.6	%
Home and Office Furnishings, Housewares and Durable Consumer Products	2	5,503	0.5	%

Insurance	2	4,585	0.4	%
Cargo Transport	1	3,242	0.3	%
Personal Transportation	2	2,966	0.3	%
Mining, Steel, Iron and Non-Precious Metals	1	2,772	0.3	%
Textiles & Leather	1	2,635	0.3	%
Diversified Natural Resources, Precious Metals and Minerals	2	2,525	0.2	%
Wholesale	1	1,991	0.2	%
Utilities: Electric	1	1,489	0.1	%
Farming & Agriculture	1	1,466	0.1	%
Grocery	2	1,147	0.1	%
Machinery (Non-Agriculture, Non-Construction & Non-Electronic)	1	803	0.1	%
Utilities: Water	1	250	0.0	%
	566	$ 1,047,400	100	%

Other Liquidity Considerations

As of December 31, 2014, our indebtedness consists of our bonds payable. We have no outstanding balances on our revolving lines of credit with City National Bank ("CNB"), related to JMP Group LLC, JMP Securities, nor on the revolving line of credit of our wholly-owned subsidiary, HGC II, defined below.

In January 2013, we raised approximately $46.0 million from the sale of 8.00% Senior Notes ("2013 Senior Notes"). In January 2014, we raised an additional approximate $48.3 million from the sale of 7.25% Senior Notes ("2014 Senior Notes"). The 2013 Senior Notes will mature on January 15, 2023 and may be redeemed in whole or in part at any time or from time to time at the Company's option on or after January 15, 2016, at a redemption price equal to the principal amount redeemed plus accrued and unpaid interest. The 2013 Senior Notes bear interest at a rate of 8.00% per year, payable quarterly on January 15, April 15, July 15 and October 15 of each year. The 2014 Senior Notes will mature on January 15, 2021, and may be redeemed in whole or in part at any time or from time to time at the Company's option on or after January 15, 2017, at a redemption price equal to the principal amount redeemed plus accrued and unpaid interest. These 2014 Senior Notes bear interest at a rate of 7.25% per year, payable quarterly on January 15, April 15, July 15 and October 15 of each year, beginning April 15, 2014.

In connection with the Reorganization Transaction, we entered into a Third Supplemental Indenture, dated as of October 15, 2014 (the "Third Supplemental Indenture"), among the JMP Group Inc., JMP Group LLC and JMP Investment Holdings LLC, as guarantors (the "Guarantors"), and U.S. Bank National Association, as trustee. The Third Supplemental Indenture became effective on January 1, 2015. Under the Third Supplemental Indenture, the Guarantors have jointly and severally provided a full and unconditional guarantee of the due and punctual payment of the principal and interest on the Senior Notes, and the due and punctual payment or performance of all other obligations of JMP Group Inc. under the Indenture, dated as of January 24, 2013, between JMP Group Inc. and the Trustee, as supplemented by a First Supplemental Indenture, dated as of January 25, 2013, a Second Supplemental Indenture, dated as of January 29, 2014 and the Third Supplemental Indenture.

Prior to April 30, 2014, a credit agreement (the "Credit Agreement") with City National Bank ("CNB") provided a line of credit of up to $30.0 million to the extent the aggregate outstanding balance of all facilities did not exceed $58.5 million. The unused portion of the line incurred an unused facility fee at the rate of 0.25% per annum, paid quarterly. The line of credit was available through April 30, 2014. On April 30, 2014, the Company entered into an amendment to its Credit Agreement (the "Amendment") between JMP Group and CNB. The Amendment provides a $25.0 million line of credit with a revolving period of two years. At the end of these two years, any outstanding amounts convert to a term loan. This term loan will be repaid in equal quarterly installments over the following three years. Proceeds for this line of credit will be used to make financial investments, for working capital purposes, for general corporate purposes, as well as a $5.0 million sublimit to issue letters of credit. The Company's outstanding balance on this line of credit was zero as of December 31, 2014.

Pursuant to the Credit Agreement, on April 25, 2013, JMP Group drew $15.0 million on a term loan. This term loan was to be repaid in quarterly installments of $1.2 million beginning March 31, 2014, with a final payment of approximately $1.3 million on December 31, 2016. The outstanding balance on this term loan was $15.0 million as of December 31, 2013. The Company paid the balance of the term loan in the first quarter of 2014.

The Credit Agreement provides that the proceeds of the CNB Loans are subject to the following restrictions: (i) the Initial Term Loan and up to $5.0 million of the Revolving Line of Credit Loans may not be used for any purpose other than to fund certain permitted investments and acquisitions and to fund JMP Group LLC's working capital needs in the ordinary course of its business; (ii) all other proceeds of the Revolving Line of Credit may not be used for any purpose other than to make investments in HCS and by HCS to make investments in loans that are made to persons that are not affiliates of borrower; and (iii) the Term Loan may not be used for any purpose other than to make equity investments in CLOs and by CLOs to make certain permitted investments in collateralized loan obligations.

The Credit Agreement includes minimum fixed charge and interest charge coverage ratios applicable to us and our subsidiaries, a minimum net worth covenant applicable to us and our subsidiaries and a minimum liquidity covenant applicable to JMP Group LLC and its subsidiaries. As of September 30, 2014, we were in compliance with all of these financial covenants. The Credit Agreement also includes an event of default for a "change of control" that tests, in part, the composition of our ownership and an event of default if two or more of the members of the Executive Committee fail to be involved actively on an ongoing basis in the management of JMP Group LLC or any of its subsidiaries. The CNB Loans are guaranteed by HCS and secured by a lien on substantially all assets of JMP Group LLC and HCS.

Separately, under a Revolving Note and Cash Subordination Agreement, dated as of April 8, 2011, by and between CNB and JMP Securities, as amended, JMP Securities held a subordinated revolving line of credit with CNB (the "Broker/Deal Line of Credit") to be used for regulatory capital purposes during its securities underwriting activities. The unused portion of the line bears interest at the rate of 0.25% per annum, paid monthly. Pursuant to the Amendment, the prior $15.0 million line of credit held at JMP Securities, which was scheduled to mature May 6, 2014, was increased to $20.0 million and renewed for one year. On May 6, 2015, any existing outstanding amount will convert to a loan maturing the following year. The remaining terms of this line of credit are consistent with those of the prior line of credit. There was no borrowing on this line of credit as of December 31, 2014.

On November 22, 2013, HGC II entered into a line of credit of $3.0 million with CNB. Draws on the line of credit bear interest at the rate of prime plus 0.5% per annum, paid quarterly. The line of credit will be available through December 1, 2015 or fifteen days prior to the expiration of the commitment period of HGC II unless renewed. Proceeds for this line of credit are used to purchase investments, prior to capital calls from HGC II investors. The Company had no borrowing on this line of credit as of December 31, 2014.

The timing of bonus compensation payments to our employees may significantly affect our cash position and liquidity from period to period. While our employees and managing directors are generally paid semi-monthly during the year, bonus compensation, which makes up a larger portion of total compensation, is generally paid once a year during the first two months of the following year. In the first two months of 2014, we paid out $49.0 million of cash bonuses for 2013, excluding employer payroll tax expense.

In January 2015, we converted to a publicly traded partnership and declared three monthly cash distributions of $0.035 per share for the first quarter of 2015, representing a 50% increase over our most recent quarterly dividend, which was paid in November 2014. The Company currently intends to continue to declare monthly cash distributions on all outstanding shares. In March 2014, the Company's board of directors declared a quarterly cash dividend of $0.045 per share of common stock, paid in April 2014 for the fourth quarter of 2013. In April 2014, the Company's board of directors declared a quarterly cash dividend of $0.050 per share of common stock, paid in May 2014 for the first quarter of 2014. In July 2014, the Company's board of directors declared a quarterly cash dividend of $0.060 per share of common stock, paid in August 2014 for the second quarter of 2014. In October 30, 2014, the board declared a cash dividend of $0.07 per share of common stock for the third quarter of 2014 to be paid in November 2014.

During the years ended December 31, 2014 and 2013, the Company repurchased 1,777,276 and 890,376 shares, respectively, of the Company's common stock at an average price of $6.58 per share and $6.50 per share, respectively, for an aggregate purchase price of $11.7 million and $5.8 million, respectively. Of the total shares repurchased during the years ended December 31, 2014 and 2013, 445,601 shares and 40,835 shares, respectively, were deemed to have been repurchased in connection with employee stock plans, whereby the Company's shares were issued on a net basis to employees for the payment of applicable statutory withholding taxes and therefore such withheld shares are deemed to be purchased by the Company. 356,728 of the shares repurchased in 2013 were repurchased from certain JMPCA employees at a discount to market price in conjunction with their use of said proceeds as a long term capital commitment to CLO II. 135,680 of the shares repurchased during the year ended December 31, 2013 were repurchased from an employee. The remaining shares were purchased on the open market.

We had total restricted cash of $67.1 million comprised primarily of $50.7 million of restricted cash at JMP Credit on December 31, 2014. This balance was comprised of $11.6 million in interest received from loans in the CLO and $39.1 million in principal cash. The interest and fees will be restricted until the next payment date to note holders of the CLO. The principal restricted cash will be used to buy additional loans.

Because of the nature of our investment banking and sales and trading businesses, liquidity is important to us. Accordingly, we regularly monitor our liquidity position, including our cash and net capital positions. We believe that our available liquidity and current level of equity capital, combined with the net proceeds to us from the initial public offering and funds anticipated to be provided by our operating activities, will be adequate to meet our liquidity and regulatory capital requirements for at least the next twelve months. If circumstances required it, we could improve our liquidity position by discontinuing repurchases of the Company's shares, halting cash distributions on our shares and reducing cash bonus compensation paid.

JMP Securities, our wholly-owned subsidiary and a registered securities broker-dealer, is subject to the SEC's Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital, as defined, and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. JMP Securities had net capital of $64.3 million and $59.1 million, which were $63.3 million and $58.1 million in excess of the required net capital of $1.0 million at December 31, 2014 and 2013, respectively. JMP Securities' ratio of aggregate indebtedness to net capital was 0.19 to 1 and 0.16 to 1 at December 31, 2014 and 2013, respectively.

A condensed table of cash flows for the years ended December 31, 2014, 2013 and 2012 is presented below.

(Dollars in thousands)	**Year Ended December 31,**			**Change from 2013 to 2014**		**Change from 2012 to 2013**	
	2014	**2013**	**2012**	**$**	**%**	**$**	**%**
Cash flows provided by operating activities	$6,444	$32,039	$7,243	$(25,595)	-79.9 %	$24,796	342.3 %
Cash flows used in investing activities	(303,606)	(393,000)	(49,655)	89,394	22.7 %	(343,345)	-691.5%
Cash flows provided by financing activities	332,618	359,792	39,124	(27,174)	-7.6 %	320,668	-819.6%
Total cash flows	$35,456	$(1,169)	$(3,288)	$36,625	1113.8%	$2,119	64.4 %

Cash Flows for the Year Ended December 31, 2014

Cash increased by $35.5 million during the year ended December 31, 2014, driven by cash provided by financing activities.

Our operating activities provided $6.4 million of cash from the net income of $22.0 million, partially offset by cash provided in the change in operating assets and liabilities of $9.3 million, adjusted for the cash used in the non-cash revenue and expense items of $6.2 million. The net change in operating assets and liabilities was driven by an increase of $23.5 million in restricted cash, partially offset by an increase in accrued compensation of $7.8 million. The non-cash revenue and expense items included $17.9 million incentive fees reinvested in general partnership interests, $16.3 million adjustment of fair value in other investments, partially offset by a release of deferred tax assets of $17.5 million.

Our investing activities used $303.6 million of cash primarily due to the funding of loans collateralizing ABS issued of $673.6 million and the purchases of other investments of $49.8 million, partially offset by cash provided by sales and payoff of loans collateralizing ABS issued of $301.6 million and $60.8 million of repayments on loans collateralizing ABS. The increase in funding of loans collateralizing ABS primarily relates to the issuance of CLO III.

Our financing activities provided $332.6 million of cash primarily due to proceeds from asset-backed securities of $329.3 million, proceeds from the CLO III credit warehouse of $207.4 million, and proceeds from the 2014 bond issuance of $48.3 million, partially offset by the $207.4 million repayment of the CLO III credit warehouse and $45.7 million repayment of asset backed securities. Proceeds from the issuance of ABS are not available for use by the Company and are restricted to lending activities by the CLOs.

Cash Flows for the Year Ended December 31, 2013

Cash decreased by $1.2 million during the year ended December 31, 2013, driven by cash used in investing activities.

Our operating activities provided $32.0 million of cash from the net income of $13.6 million and cash provided in the change in operating assets and liabilities of $30.9 million, adjusted for the cash used in the non-cash revenue and expense items of $12.5 million. The net change in operating assets and liabilities was driven by an increase in accrued compensation of $38.4 million, partially offset by an increase of marketable securities of $14.9 million and an increase of receivables of $7.1 million. The non-cash revenue and expense items included a $16.5 million adjustment of fair value in other investments and $7.8 million incentive fees reinvested in general partnership interests, partially offset by net amortization expense of liquidity discount of $14.9 million.

Our investing activities used $393.0 million of cash primarily due to the funding of loans collateralizing ABS issued of $590.9 million and the purchases of other investments of $76.5 million, partially offset by cash provided by sales and payoff of loans collateralizing ABS issued of $220.1 million, an increase of restricted cash reserved for lending of $339.4 million and $49.3 million of repayments on loans collateralizing ABS. The increase in funding of loans collateralizing ABS primarily relates to the issuance of CLO II.

Our financing activities provided $359.8 million of cash primarily due to proceeds from the issuance of ABS of $311.6 million, proceeds from capital contributions from non-controlling interest holders of $64.6 million and proceeds from bond issuance of $46.0 million, partially offset by $28.2 million repayment of the line of credit, $26.7 million repayment of asset backed securities, and $10.5 million repayment of note payable. Proceeds from the issuance of ABS are not available for use by the Company and are restricted to lending activities by the CLOs.

Cash Flows for the Year Ended December 31, 2012

Cash decreased by $3.3 million during the year ended December 31, 2012, driven by cash used in investing activities.

Our operating activities provided $6.9 million of cash from the net income of $8.0 million, and non-cash revenue and expense items of $12.1 million, adjusted for the cash used in the change in operating assets and liabilities of $13.2 million. The non-cash revenue and expense items included net amortization expense of liquidity discount of $29.2 million, partially offset by a gain on sale, payoff and mark-to-market of loans of $7.3 million, and a $5.3 million adjustment of fair value in other investments. The net change in operating assets and liabilities was driven by a decrease in accrued compensation of $21.5 million.

Our investing activities used $49.3 million of cash primarily due to the funding of loans collateralizing ABS issued of $202.6 million, funding of small business loans of $36.7 million, the purchases of other investments of $28.1 million, and an increase of restricted cash reserved for lending of $20.9 million, partially offset by cash provided by sales and payoff of loans collateralizing ABS issued of $184.4 million, and $39.4 million of repayments on loans collateralizing ABS.

Our financing activities provided $39.1 million of cash primarily due to proceeds from capital contributions from non-controlling interest holders of $34.0 million, and proceeds from issuance of note payable of $40.1 million, partially offset by $11.9 million repayment of the line of credit, $8.7 million repayment of note payable, cash dividends paid to stockholders of $5.8 million and the repurchase of our common stock for treasury of $5.6 million.

Contractual Obligations and Commitments

The following table provides a summary of our contractual obligations and commitments as of December 31, 2014:

(in thousands)	**Payments Due by Period:**				
	Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
CLO Notes	$1,010,628	$153,103	$319,761	$325,791	$211,973
Contractual interest payments (1)	90,751	19,188	35,142	27,321	9,100
Operating lease obligations	25,280	4,185	8,027	5,547	7,521
Purchase obligations	203	40	120	43	-
Commitments to lend (2)	26,591	26,591	-	-	-
Commitments under standby letters of credit (3)	159	159	-	-	-
Total payments	$1,153,612	$203,266	$363,050	$358,702	$228,594

(1) Estimated future interest payments related to CLO Notes based on applicable interest rates as of December 31, 2014.

(2) Unsettled trades to purchase loans at JMP Credit. The funds for such unsettled trades are included in restricted cash on the Consolidated Statement of Financial Condition at December 31, 2014.

(3) Conditional commitments issued by JMP Credit to guarantee the performance by a borrower to a third party. The cash collateral supporting these standby letters of credit is included in restricted cash on the Consolidated Statement of Financial Condition at December 31, 2014.

Off-Balance Sheet Arrangements

In connection with the CLOs, the Company had unfunded commitments to lend of $24.3 million and $40.4 million and standby letters of credit of $2.3 million and $1.8 million as of December 31, 2014 and 2013, respectively. These commitments do not extend to JMP Group Inc.

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

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance by a borrower to a third party. The Company’s exposure to credit loss in the event of nonperformance by the other party to the financial instrument for standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on balance sheet instruments. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to borrowers.

We had no other material off-balance sheet arrangements as of December 31, 2014. However, as described below under “Quantitative and Qualitative Disclosures About Market Risk—Credit Risk,” through indemnification provisions in our clearing agreements with our clearing broker, customer activities may expose us to off-balance sheet credit risk, which we seek to mitigate through customer screening and collateral requirements.

Critical Accounting Policies and Estimates

The preparation of our consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and of revenues and expenses during the reporting periods. We base our estimates and assumptions on historical experience and on various other factors that we believe are reasonable under the circumstances. The use of different estimates and assumptions could produce materially different results. For example, if factors such as those described in “Risk Factors” cause actual events to differ from the assumptions we used in applying the accounting policies, our results of operations, financial condition and liquidity could be adversely affected.

Our significant accounting policies are summarized in Note 2 to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K. On an ongoing basis, we evaluate our estimates and assumptions, particularly as they relate to accounting policies that we believe are most important to the presentation of our financial condition and results of operations. We regard an accounting estimate or assumption to be most important to the presentation of our financial condition and results of operations where:

- the nature of the estimate or assumption is material due to the level of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change; and

- the impact of the estimate or assumption on our financial condition or operating performance is material.

Using the foregoing criteria, we consider the following to be our critical accounting policies:

Valuation of Financial Instruments

The Company measures fair value in accordance with generally accepted accounting principles and expands disclosures with respect to fair value measurements. The accounting principles related to fair value measurement apply 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.

Most of our financial instruments, other than loans collateralizing asset-backed securities issued and asset-backed securities issued, are recorded at fair value or amounts that approximate fair value. Marketable securities owned, Other investments, including warrant positions and investments in partnerships in which HCS is the general partner, and Marketable securities sold, but not yet purchased, are stated at fair value, with related changes in unrealized appreciation or depreciation reflected in the line item Principal transactions in the accompanying Consolidated Statements of Operations. Small business loans (through the deconsolidation of HCC at May 2, 2013) are stated at fair value, with related changes in unrealized appreciation or depreciation reflected in the line item Gain on sale, payoff and mark-to-market of loans in the accompanying Consolidated Statements of Operations.

Fair value of our financial instruments is generally obtained from quoted market prices, third-party pricing services, or alternative pricing methodologies that we believe offer reasonable levels of price transparency. Valuations obtained from pricing services are considered reflective of executable prices. Data obtained from multiple sources are compared for consistency and reasonableness. To the extent that certain financial instruments trade infrequently or are non-marketable securities and, therefore, do not have readily determinable fair values, we estimate the fair value of these instruments using various pricing models and the information available to us that we deem most relevant. Among the factors considered by us 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 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 us or our affiliates, as well as cash paid for a subscription 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 our 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.

In September 2009, the FASB issued amended accounting principles related to fair value measurements of investments in certain entities that calculate net asset value per share. The amended accounting principles permit, as a practical expedient, an entity to estimate the fair value of investments in certain entities using the net asset value per share of such entities. The Company estimates the fair value of its investments in private investment funds managed by third parties using the net asset value per share of those funds.

Also included in other investments are warrants on public and private common stock owned by JMP Securities and HCC LLC (through May 2, 2013), private equity securities owned by HGC, HGC II, HCC LLC (through May 2, 2013) and JMP Capital, the investments in private companies sponsored by JMP Group LLC and JMP Capital, an interest rate cap derivative instrument, and a forward contract owned by HGC. The warrants on public and private common stock are generally received as a result of investment banking transactions and are valued at estimated fair value as determined by management. Warrants owned at JMP Securities are valued at the date of issuance and marked-to-market as unrealized gains and losses until realized. Estimated fair value is determined using the Black-Scholes Options Valuation methodology. The fair value of the warrants and other equity securities owned by HCC LLC is determined by the Company using comparable public company metrics discounted for private company market illiquidity. The fair value of the private equity securities and the forward contract owned by HGC, HGC II and JMP Capital is determined by the Company using comparable public company metrics discounted for private company market illiquidity. The investments in private companies sponsored by JMP Group LLC and JMP Capital are held using the equity method or fair value option.

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. It requires entities to display the fair value of those assets and liabilities for which the company has chosen to use fair value on the face of the balance sheet. The election to use the fair value option is available at specified election dates, such as when an entity first recognizes a financial asset or financial liability or upon entering into a firm commitment. Subsequent changes in fair value must be recorded in the Consolidated Statements of Operations. Additionally, the guidance allows for a one-time election for existing positions upon adoption, with the transition adjustment recorded to beginning retained earnings.

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The following tables summarize our marketable securities and other investments, as presented in our Consolidated Statements of Financial Condition, by valuation methodology as of December 31, 2014:

(in thousands)			**Other Investments (3)**							
	Marketable Securities Owned, at Market Value (1)	**Marketable Securities Sold, But Not Yet Purchased, at Market Value (2)**	**Hedge Funds Managed by HCS**	**Fund of Funds Managed by HCS**	**Limited Partner in Private Equity Fund**	**Warrants and Other**	**Equity securities**	**Forward Purchase Contract / Swaption**	**Total Other Investments**	**Total Marketable Securities and Other Investments**
Fair values based on:										
Quoted market prices	$29,466	$15,048	$-	$-	$-	$-	$3,539	$-	$3,539	$48,053
Black Scholes options valuation	-	-	-	-	-	732	-	-	732	732
Observable market based inputs	-	-	64,628	-	-	-	-	-	64,628	64,628
Valuation determined by third party general partners	-	-	-	152	9,102	-	-	-	9,254	9,254
Comparable public company metrics discounted for private company market illiquidity	-	-	-	-	-	-	122,058	6,608	128,666	128,666
Totals	$29,466	$15,048	$64,628	$152	$9,102	$732	$125,597	$6,608	$206,819	$251,333

Fair values based on:																				
Quoted market prices	100.0	%	100.0	%	0.0	%	0.0	%	0.0	%	0.0	%	1.7	%	0.0	%	1.7	%	19.1	%
Black Scholes options valuation	0.0	%	0.0	%	0.0	%	0.0	%	0.0	%	0.4	%	0.0	%	0.0	%	0.4	%	0.3	%
Observable market based inputs	0.0	%	0.0	%	31.2	%	0.0	%	0.0	%	0.0	%	0.0	%	0.0	%	31.2	%	25.7	%
Valuation determined by third party general partners	0.0	%	0.0	%	0.0	%	0.1	%	4.4	%	0.0	%	0.0	%	0.0	%	4.5	%	3.7	%
Comparable public company metrics discounted for private company market illiquidity	0.0	%	0.0	%	0.0	%	0.0	%	0.0	%	0.0	%	59.0	%	3.2	%	62.2	%	51.2	%
Totals	100.0	%	100.0	%	31.2	%	0.1	%	4.4	%	0.4	%	60.7	%	3.2	%	100.0	%	100.0	%

(1) Marketable securities owned consist mainly of U.S. listed and OTC equity securities.
(2) Marketable securities sold, but not yet purchased consist mainly of U.S. listed and OTC equity securities.
(3) Other investments consist of interests in hedge funds and funds of funds managed by HCS, limited partnership interests in private investment funds managed by third parties that invest in predominately private securities and warrants in public and private common stock.

Asset Management Investment Partnerships

Investments in partnerships include our general partnership and limited partnership interests in investment partnerships, managed by our asset management subsidiary. Such investments are accounted for under the equity method based on our proportionate share of the earnings (or losses) of the investment partnership. These interests are carried at estimated fair value based on our capital accounts in the underlying partnerships. The net assets of the investment partnerships consist primarily of investments in marketable and non-marketable securities. The underlying investments held by such partnerships are valued based on quoted market prices or estimated fair value if there is no public market. Such estimates of fair value of the partnerships' non-marketable investments are ultimately determined by our asset management subsidiary in its capacity as general partner. Due to the inherent uncertainty of valuation, fair values of these non-marketable investments may differ from the values that would have been used had a ready market existed for these investments, and the differences could be material. Adjustments to carrying value are made, as required by GAAP, if there are third-party transactions evidencing a change in value. Downward adjustments are also made, in the absence of third-party transactions, if the general partner determines that the expected realizable value of the investment is less than the carrying value.

We earn base management fees from the investment partnerships that we manage generally based on the net assets of the underlying partnerships. In addition, we are entitled to allocations of the appreciation and depreciation in the fair value of the underlying partnerships from our general partnership interests in the partnerships. Such allocations are based on the terms of the respective partnership agreements.

We are also entitled to receive incentive fee allocations from the investment partnerships when the return exceeds a specified highwater mark or hurdle rate over a defined performance period. Incentive fees are recorded after the quarterly or annual investment performance period is complete and may vary depending on the terms of the fee structure applicable to an investor.

Loans Collateralizing Asset-Backed Securities Issued

Loans collateralizing asset-backed securities issued are recorded at their fair value as of the acquisition date, which then becomes the new basis of the loans. Any unamortized deferred fees or costs that existed prior to the acquisition are written off at that date.

For those loans acquired with evidence of deterioration of credit quality since origination, the total discount from unpaid principal balance to fair value consists of a non-accretable credit discount and an accretable liquidity discount. 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 without evidence of deterioration in credit quality since origination, any difference between the Company's initial investment in the loan and its par value is recorded as a premium or discount, which is amortized or accreted in interest income as a yield adjustment over the contractual life of the loan using the effective interest method, in accordance with *ASC 310-20, Nonrefundable Fees and Other Costs*.

The Company reviews its loan portfolio at the end of each quarter to identify specific loss reserves on impaired loans or to record losses inherent in the homogenous loan portfolio. As loans collateralizing asset-backed securities issued are considered similar in nature, given the loan terms, ratings and average life expectancy, they are reviewed collectively in the quarterly assessment of loan loss reserves. Even when there are no credit losses identified in any individual loans, experience indicates there are losses inherent in the pooled loan portfolios as of the balance sheet date. The Company uses its loan loss model to estimate the unidentified losses that are inherent in the portfolio as of the balance sheet date and records provisions to its allowance for loan losses quarterly.

For loans acquired at a discount that are not accounted for under ASC 310-30, the allowance for loan losses recorded subsequent to the date of the loan acquisition is determined using the guidance in ASC 450. No allowance on these loans will be recognized until the current book value is accreted past the level of incurred loss. For loans acquired at a premium, the allowance for loan losses recorded subsequent to the date of the loan acquisition is determined in accordance with ASC 450, based on the contractual principal balances. Given the existence of the premium on these loans, the allowance recorded subsequent to acquisition is based on the Company's quarterly allowance methodology and represents losses inherent in the homogeneous loan portfolio at the balance sheet date. Accordingly, if the Company were to acquire loans at a premium during a particular period, the Company would record an allowance at the end of the quarter in which the loans were acquired.

Refer to "Allowance for Loan Losses" section below for the Company's quarterly assessment process.

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 non-accrual 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 non-accrual 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.

Restructured loans are considered a troubled debt restructuring (“TDR”) if the Company, for economic or legal reasons related to the debtor’s financial difficulties, grants a concession to the debtor that it would not otherwise consider. The Company may receive an asset from the debtor in a TDR, but the value of the asset received is typically significantly less than the amount of the debt forgiven. The Company has received equity interest in certain debtors as compensation for reducing the loan principal balance in some cases.

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.

In accordance with the authoritative guidance under GAAP on loss contingencies, the Company provides a base allowance on a loan by loan basis for loans at JMP Credit that are not impaired and were purchased after the CLO I 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 collectability of loans.

In accordance with the authoritative guidance under GAAP on loan impairment, any required impairment allowances are included in the allowance for loan losses. 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

CLO I at the date of acquisition by JMP Credit, and deemed impaired at that date or a subsequent date, loan loss provisions are calculated considering two further factors. For loans deemed impaired at the date of acquisition if there is a further decline in expected future cash flows, this reduction is recognized as specific loan loss provision in the current quarter in accordance with above. For those loans deemed impaired subsequent to the acquisition date, if the net realizable value is lower than the current carrying value then that reduction from the carrying value is booked as provision for loan losses. Therefore at the date of assessment, if the total discount from unpaid principal balance to carrying value is larger than the expected loss, no provision for loan losses is recognized for those loans acquired at CLO I but deemed impaired subsequent to their acquisition.

Loans which are deemed to be uncollectible are charged off and deducted from the allowance. The provision for loan losses and recoveries on loans previously charged off are added to the allowance.

Asset-backed Securities Issued

Asset-backed securities issued (“ABS”) represent securities issued to third parties by the CLOs. The Company consolidated the CLOs for financial reporting purposes. At the acquisition date, the ABS at CLO I 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. At the issuance date of the instrument, the Company made a policy election not to update the estimated life of the asset on a prospective basis. This conclusion established at the issuance date, was therefore fixed for the instrument.

Legal and Other Contingent Liabilities

We are involved in various pending and potential complaints, arbitrations, legal actions, investigations and proceedings related to our business from time to time. Some of these matters involve claims for substantial amounts, including claims for punitive and other special damages. The number of complaints, legal actions, investigations and regulatory proceedings against financial institutions like us has been increasing in recent years. We have, after consultation with counsel and consideration of facts currently known by management, recorded estimated losses in accordance with authoritative guidance under GAAP on contingencies, to the extent that a claim may result in a probable loss and the amount of the loss can be reasonably estimated. The determination of these reserve amounts requires significant judgment on the part of management and our ultimate liabilities may be materially different. In making these determinations, management considers many factors, including, but not limited to, the loss and damages sought by the plaintiff or claimant, the basis and validity of the claim, the likelihood of successful defense against the claim and the potential for, and magnitude of, damages or settlements from such pending and potential complaints, legal actions, arbitrations, investigations and proceedings, and fines and penalties or orders from regulatory agencies.

If a potential adverse contingency should become probable or resolved for an amount in excess of the established reserves during any period, our results of operations in that period and, in some cases, succeeding periods, could be adversely affected.

Income Taxes

The Company recognizes deferred tax assets and liabilities in accordance with ASC 740, Income Taxes, and are determined based upon the temporary differences between the financial reporting and tax basis of the Company’s assets and liabilities using the tax rates and laws in effect when the differences are expected to reverse. 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 applies the accounting principles related to uncertainty in income taxes. Under the guidance, 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 authorities’ 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.

The Company’s policy for recording interest and penalties associated with the tax audits or unrecognized tax benefits, if any, is to record such items as a component of income tax.

Recent Accounting Pronouncements

For a description of recent accounting pronouncements affecting the Company, refer to Note 3 in the accompanying consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market Risk

Market risk represents the risk of loss that may result from the change in value of a financial instrument due to fluctuations in its market price. Market risk may be exacerbated in times of trading illiquidity when market participants refrain from transacting in normal quantities and/or at normal bid-offer spreads. Our exposure to market risk is directly related to our role as a financial intermediary in customer trading and to our market making and investment activities. Market risk is inherent in financial instruments.

Even though we trade in equity securities as an active participant in both listed and OTC markets and we make markets in approximately 900 stocks, we typically maintain very few securities in inventory overnight to minimize market risk. In addition, we act as agent rather than principal whenever we can and may use a variety of risk management techniques and hedging strategies in the ordinary course of our trading business to manage our exposures. Historically, in connection with our principal investments in publicly-traded equity securities, we have engaged in short sales of equity securities to offset the risk of purchasing other equity securities. We engaged in a forward contract derivative and a swaption derivative in 2012 and 2014, respectively, to secure the acquisition of certain private equity securities. In the future, we may utilize other hedging strategies such as equity derivative trades.

In connection with our sales and trading business, management evaluates the amount of risk in specific trading activities and determines our tolerance for such activities. Management monitors risks in its trading activities by establishing limits for the trading desk and reviewing daily trading results, inventory aging, and securities concentrations. Typically, market conditions are evaluated and transaction details and securities positions are reviewed. These activities seek to ensure that trading strategies are within acceptable risk tolerance parameters. Activities include price verification procedures, position reconciliations and reviews of transaction bookings. We believe these procedures, which stress timely communications between traders, trading management and senior management, are important elements of the risk management process.

Equity Price and Liquidity Risk

Equity price and liquidity risk represents the potential loss in value due to adverse changes in the level of market activity and volatility of equity prices. We are exposed to equity price and liquidity risk through our trading activities in both listed and OTC equity markets and security positions in our principal investment portfolio. We attempt to reduce the risk of loss inherent in our inventory of equity securities by establishing position limits, monitoring inventory turnover and entering into hedging transactions designed to mitigate our market risk profile.

Our marketable securities owned include long positions in equity securities that were recorded at a fair value of $29.5 million as of December 31, 2014. Our marketable securities sold but not yet purchased consist of short positions in equity securities and were recorded at a fair value of $15.0 million as of December 31, 2014. The net potential loss in fair value for our marketable equity securities portfolio as of December 31, 2014, using a hypothetical 10% decline in prices, is estimated to be approximately $1.5 million. In addition, as of December 31, 2014, we have invested $65.0 million of our own capital in our funds, which are invested primarily in publicly traded equity securities. The net potential loss in fair value for our investments at December 31, 2014, using a hypothetical 10% decline in the funds' investment portfolios, is estimated to be approximately $6.5 million. A 10% decrease in the fair value of our investment in the equity securities in HGC, HGC II and JMP Capital is immaterial to the Company's results of operations due to the impact of the non-controlling interest holders. As of December 31, 2014, our interest in HGC and HGC II was 4.84% and 2.45%, respectively.

Interest Rate Risk

Interest rate risk represents the potential loss from adverse changes in market interest rates. As we may hold U.S. Treasury securities and other fixed income securities and may incur interest-sensitive liabilities from time to time, we are exposed to interest rate risk arising from changes in the level and volatility of interest rates and in the shape of the yield curve. We believe we have mitigated our interest rate risk on our interest-sensitive liabilities, except liabilities of the CLOs, by entering into an interest rate cap through the maturity of these liabilities.

As of December 31, 2014, approximately 88.7% of our combined CLO portfolios had LIBOR floors with a weighted average floor of 0.98%. Many of the loans in CLO portfolios have variable interest rates indexed to LIBOR and subject to a LIBOR floor, which provides additional income during periods when LIBOR rates are below the floor levels. Loans with a LIBOR floor pay an interest rate of LIBOR plus the applicable margin so long as LIBOR remains above the specified floor level. If, however, LIBOR falls below the floor, the interest rate is the floor level plus the applicable margin. The asset backed securities issued by our CLOs typically have variable interest rates indexed to LIBOR, but do not have LIBOR floors. Accordingly, in a low interest rate environment, the equity holders of our CLOs benefit from a so called LIBOR floor benefit. If the LIBOR increases above the applicable LIBOR floors, the variable interest payments on the CLO asset backed securities will also increase, and the LIBOR floor benefit to us will decrease. This would diminish the return on equity of our CLOs that we hold, which could have an adverse impact on our results of operations.

Credit Risk

Our broker-dealer subsidiary places and executes customer orders. The orders are then settled by an unrelated clearing organization that maintains custody of customers' securities and provides financing to customers.

Through indemnification provisions in our agreement with our clearing organization, customer activities may expose us to off-balance-sheet credit risk. We may be required to purchase or sell financial instruments at prevailing market prices in the event a customer fails to settle a trade on its original terms or in the event cash and securities in customer margin accounts are not sufficient to fully cover customer obligations. We seek to control the risks associated with brokerage services for our customers through customer screening and selection procedures as well as through requirements that customers maintain margin collateral in compliance with governmental and self-regulatory organization regulations and clearing organization policies.

Credit risk also includes the risk that we will not fully collect the principal we have invested in loans held for investment and loans collateralizing asset-backed securities issued due to borrower defaults. While we feel that our origination and underwriting of these loans will help to mitigate the risk of significant borrower defaults on these loans, we cannot assure you that all borrowers will continue to satisfy their payment obligations under these loans, thereby avoiding default.

Inflation Risk

Because our assets are generally liquid in nature, they are not significantly affected by inflation. However, the rate of inflation affects such expenses as employee compensation and communications charges, which may not be readily recoverable in the prices of services we offer. To the extent inflation results in rising interest rates and has other adverse effects on the securities markets, it may adversely affect our combined financial condition and results of operations in certain businesses.

Item 8. Financial Statements and Supplementary Data

Management's Report on Internal Control Over Financial Reporting

The management of JMP Group LLC is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external reporting purposes in accordance with GAAP.

The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2014. This assessment was based on criteria for effective internal control over financial reporting described in "Internal Control—Integrated Framework (2013)," issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that, as of December 31, 2014, the Company maintained effective internal control over financial reporting.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2014, has been audited by PricewaterhouseCoopers LLP, the Company's independent registered public accounting firm, as stated in its report appearing on the following page, which expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2014.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

JMP Group LLC

In our opinion, the accompanying consolidated statements of financial condition and the related consolidated statements of operations, comprehensive income, changes in equity and cash flows present fairly, in all material respects, the financial position of JMP Group Inc. and its subsidiaries at December 31, 2014 and December 31, 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control—Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

San Francisco, California

March 12, 2015

JMP Group Inc.

Consolidated Statements of Financial Condition

(Dollars in thousands, except per share data)

	As of December 31,	
	2014	**2013**
Assets		
Cash and cash equivalents	$101,362	$65,906
Restricted cash and deposits (includes cash on deposit with clearing broker of $220 and $150 at December 31, 2014 and 2013, respectively)	67,102	68,029
Receivable from clearing broker	1,285	1,280
Investment banking fees receivable, net of allowance for doubtful accounts of $5 and zero at December 31, 2014 and 2013, respectively	10,439	13,161
Marketable securities owned, at fair value	29,466	29,295
Incentive fee receivable	7,092	7,910
Other investments (includes $206,819 and $161,518 measured at fair value at December 31, 2014 and 2013, respectively)	208,947	161,773
Loans held for investment, net of allowance for loan losses	1,997	825
Loans collateralizing asset-backed securities issued, net of allowance for loan losses	1,038,848	727,270
Interest receivable	2,885	1,876
Fixed assets, net	2,233	2,092
Deferred tax assets	10,570	12,492
Other assets	33,966	30,022
Total assets	$1,516,192	$1,121,931
Liabilities and Equity		
Liabilities:		
Marketable securities sold, but not yet purchased, at fair value	$15,048	$13,749
Accrued compensation	54,739	51,347
Asset-backed securities issued	1,001,137	716,423
Interest payable	5,568	2,767
Note payable	-	15,000
Line of credit	-	2,895
Bond payable	94,300	46,000
Deferred tax liability	19,161	3,625
Other liabilities	37,310	32,885
Total liabilities	1,227,263	884,691
Commitments and Contingencies		
JMP Group Inc. Stockholders' Equity		
Common stock, $0.001 par value, 100,000,000 shares authorized; 22,780,052 shares issued at both December 31, 2014 and 2013; 21,216,258 and 21,819,446 shares outstanding at December 31, 2014 and 2013, respectively	23	23

Additional paid-in capital	134,800	132,547
Treasury stock, at cost, 1,563,794 and 960,606 shares at December 31, 2014 and 2013, respectively	(10,316)	(6,076)
Retained earnings (Accumulated deficit)	8,090	(109)
Total JMP Group Inc. stockholders' equity	132,597	126,385
Nonredeemable Non-controlling Interest	156,332	110,855
Total equity	288,929	237,240
Total liabilities and equity	$1,516,192	$1,121,931

See accompanying notes to consolidated financial statements

JMP Group Inc.

Consolidated Statements of Financial Condition

(Dollars in thousands, except per share data)

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

	As of December 31, 2014	2013
Cash and cash equivalents	$1,294	$211
Restricted cash	50,617	43,497
Loans collateralizing asset-backed securities issued, net of allowance for loan losses	1,038,848	726,774
Interest receivable	2,861	1,851
Incentive fees receivable	902	495
Deferred tax assets	1,063	1,935
Other assets	5,156	3,107
Total assets of consolidated VIEs	$1,100,741	$777,870
Accrued compensation	1,918	405
Asset-backed securities issued	1,001,137	716,423
Note payable (1)	2,500	4,053
Interest payable	4,107	1,947
Deferred tax liability	1,317	1,647
Other liabilities	-	882
Total liabilities of consolidated VIEs	$1,010,979	$725,357

(1) Balance inclusive of intercompany loan.

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, the assets of the VIE can only be used to settle the obligations of the VIE.

See accompanying notes to consolidated financial statements

JMP Group Inc.

Consolidated Statements of Operations

(In thousands, except per share data)

	Year Ended December 31, 2014	2013	2012
Revenues			
Investment banking	$81,070	$74,173	$50,982
Brokerage	26,916	24,625	21,903
Asset management fees	40,620	25,952	15,775
Principal transactions	13,848	20,727	10,537
(Loss) gain on sale, payoff and mark-to-market of loans	(492)	1,806	7,255
Net dividend income (loss)	1,001	535	(29)
Other income	3,335	798	3,800
Non-interest revenues	166,298	148,616	110,223
Interest income	40,042	33,346	32,898
Interest expense	(23,398)	(30,110)	(39,993)
Net interest income (expense)	16,644	3,236	(7,095)
Provision for loan losses	(436)	(2,637)	(2,206)
Total net revenues after provision for loan losses	182,506	149,215	100,922
Non-interest expenses			
Compensation and benefits	123,580	102,432	66,415
Administration	7,310	8,660	6,186
Brokerage, clearing and exchange fees	3,304	3,543	3,806
Travel and business development	4,123	4,416	3,387
Communications and technology	3,843	3,534	3,503
Occupancy	3,337	3,245	3,157
Professional fees	4,738	3,953	3,630
Depreciation	931	921	884
Other	1,342	960	420
Total non-interest expenses	152,508	131,664	91,388
Net income before income tax expense	29,998	17,551	9,534
Income tax expense	8,015	3,950	1,581
Net income	21,983	13,601	7,953
Less: Net income attributable to nonredeemable non-controlling interest	8,631	9,973	5,196
Net income attributable to JMP Group Inc.	$13,352	$3,628	$2,757
Net income (loss) attributable to JMP Group Inc. per common share:			
Basic	$0.59	$0.16	$0.12

Diluted	$0.57	$0.16	$0.12
Dividends declared per common share	$0.225	$0.145	$0.135
Weighted average common shares outstanding:			
Basic	21,481	22,158	22,582
Diluted	23,542	23,317	22,906

See accompanying notes to consolidated financial statements

JMP Group Inc.

Consolidated Statements of Comprehensive Income

(In thousands)

	Year Ended		
	2014	**2013**	**2012**
Net income	$21,983	$13,601	$7,953
Other comprehensive income			
Unrealized gain on cash flow hedge, net of tax	-	55	47
Comprehensive income	21,983	13,656	8,000
Less: Comprehensive income attributable to non-controlling interest	8,631	9,973	5,196
Comprehensive income attributable to JMP Group Inc.	$13,352	$3,683	$2,804

See accompanying notes to consolidated financial statements

JMP Group Inc.

Consolidated Statements of Changes in Equity

(In thousands)

	JMP Group Inc. Stockholders' Equity							
	Common Stock Shares	Amount	Treasury Stock	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Nonredeemable Non-controlling Interest	Total Equity
Balance, December 31, 2011	22,410	$ 22	$ (3,011)	$ 132,944	$ (92)	$ (102)	$ 26,829	$ 156,590
Net income	-	-	-	-	2,757	-	5,196	7,953
Additional paid-in capital - stock-based compensation	-	-	-	(7,606)	-	-	-	(7,606)
Cash dividends paid to shareholders	-	-	-	-	(3,073)	-	-	(3,073)
Purchases of shares of common stock for treasury	-	-	(5,649)	-	-	-	-	(5,649)
Reissuance of shares of common stock from treasury	-	-	7,653	240	-	-	-	7,893
Common stock issued	370	1	-	2,740	-	-	-	2,741
Distributions to non-controlling interest holders	-	-	-	-	-	-	(5,774)	(5,774)
Unrealized gain on cash flow hedge, net of tax	-	-	-	-	-	47	-	47
Capital contributions from non-controlling interest holders (1)	-	-	-	-	-	-	34,021	34,021
Balance, December 31, 2012	22,780	$ 23	$ (1,007)	$ 128,318	$ (408)	$ (55)	$ 60,272	$ 187,143
Net income	-	-	-	-	3,628	-	9,973	13,601
Additional paid-in capital - stock-based compensation	-	-	-	4,148	-	-	-	4,148
Dividends and dividend equivalents declared on common stock and restricted stock units	-	-	-	-	(3,329)	-	-	(3,329)
	-	-	(5,783)	-	-	-	-	(5,783)

Purchases of shares of common stock for treasury								
Reissuance of shares of common stock from treasury	-	-	714	81	-	-	-	795
Distributions to non-controlling interest holders	-	-	-	-	-	-	(3,913)	(3,913)
Unrealized gain on cash flow hedge, net of tax	-	-	-	-	-	55	-	55
Capital contributions from non-controlling interest holders	-	-	-	-	-	-	67,712	67,712
Deconsolidation of subsidiary (Note 2)	-	-	-	-	-	-	(23,189)	(23,189)
Balance, December 31, 2013	22,780	$ 23	$ (6,076)	$ 132,547	$ (109)	$ -	$ 110,855	$ 237,240
Net income	-	-	-	-	13,352	-	8,631	21,983
Additional paid-in capital - stock-based compensation	-	-	-	1,226	-	-	-	1,226
Additonal paid-in capital - excess tax benefit related to stock-based compensation	-	-	-	(175)	-	-	-	(175)
Dividends and dividend equivalents declared on common stock and restricted stock units	-	-	-	-	(5,153)	-	-	(5,153)
Purchases of shares of common stock for treasury	-	-	(11,702)	-	-	-	-	(11,702)
Reissuance of shares of common stock from treasury	-	-	7,462	953	-	-	-	8,415
Purchase of subsidiary shares from non-controlling interest holders	-	-	-	(844)	-	-	(5,156)	(6,000)
Distributions to non-controlling interest holders	-	-	-	-	-	-	(3,175)	(3,175)
Capital contributions from non-controlling interest holders	-	-	-	-	-	-	20,954	20,954
Sale of subsidiary shares to non-controlling interest holders	-	-	-	1,093	-	-	24,223	25,316
Balance, December 31, 2014	22,780	$ 23	$ (10,316)	$ 134,800	$ 8,090	$ -	$ 156,332	$ 288,929

(1) Excludes $111 thousand attributable to redeemable non-controlling interest for the year ended December 31, 2012.

See accompanying notes to consolidated financial statements

JMP Group Inc.

Consolidated Statements of Cash Flows

(In thousands)

	Year Ended December 31,		
	2014	**2013**	**2012**
Cash flows from operating activities:			
Net income	$21,983	$13,601	$7,953
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Provision for doubtful accounts	5	2	-
Provision for loan losses	436	2,637	2,206
Accretion of deferred loan fees	(1,202)	(1,795)	(2,184)
Amortization of liquidity discount, net	(119)	14,867	29,208
Amortization of debt issuance costs	399	31	-
Amortization of original issue discount, related to CLO II and CLO III	1,036	580	-
Interest paid in kind	(168)	(485)	(10)
Gain on sale and payoff of loans	492	(1,806)	(6,905)
Change in other investments:			
Fair value	(16,260)	(16,482)	(5,262)
Incentive fees reinvested in general partnership interests	(17,863)	(7,753)	(4,253)
Change in fair value of small business loans	-	(90)	(340)
Realized gain (loss) on other investments	(755)	(2,895)	(3,046)
Depreciation and amortization of fixed assets	931	921	884
Stock-based compensation expense	9,431	5,371	2,492
Deferred income taxes	17,457	(5,554)	(341)
Net change in operating assets and liabilities:			
(Increase) decrease in interest receivable	(841)	(647)	106
Decrease (increase) in receivables	3,218	7,070	(3,275)
(Increase) decrease in marketable securities	(171)	(14,948)	9,962
(Increase) decrease in restricted cash (excluding restricted cash reserved for lending activities)	(6,048)	(5,341)	(495)
(Increase) decrease in other assets	(17,435)	1,977	1,484
Increase in marketable securities sold, but not yet purchased	1,299	2,182	646
Increase (decrease) in interest payable	2,801	2,179	(63)
Increase (decrease) in accrued compensation and other liabilities	7,818	38,417	(21,524)
Net cash provided by operating activities	6,444	32,039	7,243
Cash flows from investing activities:			
Purchases of fixed assets	(1,072)	(350)	(1,262)
Purchases of other investments	(49,778)	(76,450)	(28,130)
Sales of other investments	52,626	13,580	10,192
Funding of loans collateralizing asset-backed securities issued	(673,586)	(590,932)	(202,627)
Funding of small business loans	-	(1,250)	(36,693)

Sale and payoff of small business loans	-	-	6,128
(Funding) repayment of loans held for investment	(1,172)	(825)	150
Sale and payoff of loans collateralizing asset-backed securities issued	301,646	220,122	184,082
Principal receipts on loans collateralizing asset-backed securities issued	60,755	49,324	39,383
Net change in restricted cash reserved for lending activities	6,975	7,125	(20,878)
Cash associated with consolidation / deconsolidation of subsidiaries	-	(13,344)	-
Net cash used in investing activities	(303,606)	(393,000)	(49,655)

See accompanying notes to consolidated financial statements

JMP Group Inc.

Consolidated Statements of Cash Flows—(Continued)

	Year Ended December 31,		
	2014	**2013**	**2012**
Cash flows from financing activities:			
Proceeds from issuance of note payable	5,000	15,000	-
Proceeds from borrowing on line of credit	-	3,045	40,127
Proceeds from bond issuance	48,300	46,000	-
Proceeds from CLO III warehouse	207,393	-	-
Proceeds from asset-backed securities issued	329,339	311,562	-
Payments of debt issuance costs	(1,740)	(1,694)	-
Repayment of note payable	(20,000)	(10,486)	(8,736)
Repayment of line of credit	(2,895)	(28,227)	(11,900)
Repayment of CLO III warehouse	(207,393)	-	-
Repayment of asset-backed securities issued	(45,661)	(26,723)	-
Dividends and dividend equivalents paid on common stock and RSUs	(5,153)	(3,329)	(3,072)
Purchases of shares of common stock for treasury	(11,702)	(5,783)	(5,649)
Capital contributions of redeemable non-controlling interest holders	-	134	111
Capital contributions of nonredeemable non-controlling interest holders	20,954	64,634	34,017
Distributions to non-controlling interest shareholders	(3,175)	(3,913)	(5,774)
Purchase of subsidiary shares from non-controlling interest holders	(6,000)	-	-
Cash settlement of stock-based compensation	(140)	(428)	-
Sale of subsidiary shares to non-controlling interest holders	25,316	-	-
Excess tax benefit related to stock-based compensation	175	-	-
Net cash provided by financing activities	332,618	359,792	39,124
Net increase (decrease) in cash and cash equivalents	35,456	(1,169)	(3,288)
Cash and cash equivalents, beginning of period	65,906	67,075	70,363
Cash and cash equivalents, end of period	$101,362	$65,906	$67,075
Supplemental disclosures of cash flow information:			
Cash paid during the period for interest	$18,306	$11,560	$6,156
Cash paid during the period for taxes	$6,554	$6,912	$16
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	$7,462	$714	$7,653

See accompanying notes to consolidated financial statements

JMP GROUP INC.

Notes to Consolidated Financial Statements

December 31, 2014, 2013 and 2012

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. The Company conducts its brokerage business through JMP Securities LLC (“JMP Securities”), its asset management business through Harvest Capital Strategies LLC (“HCS”) and HCAP Advisors LLC (“HCAP Advisors“), 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”). The above entities, other than HCAP Advisors, 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. From September 2011 through May 2013, the Company also conducted corporate credit business through partially owned Harvest Capital Credit LLC (“HCC LLC”). On December 18, 2012, HCAP Advisors was formed as a Delaware Limited Liability Company. Effective May 1, 2013, HCAP Advisors provides investment advisory services to Harvest Capital Credit Corporation (“HCC”). Through JMPCA, the Company manages JMPCA CLO I Ltd (“CLO I”), JMPCA CLO II Ltd (“CLO II”) and JMPCA CLO III Ltd (“CLO III”).

In the third quarter of 2014, the board of directors approved a transaction to convert its corporate form into a limited liability company that would be taxed as a partnership, and not as a corporation, which was subsequently approved by the Company’s stockholders at the December 1, 2014 meeting. In connection with the transaction, the Company has entered into an agreement and plan of merger with a newly formed, wholly owned, limited liability company subsidiary, JMP Group LLC, and a newly formed Delaware corporation and indirect wholly owned subsidiary, JMP Merger Corp. On January 1, 2015, JMP Group Inc. merged with and into JMP Merger Corp., with JMP Group Inc. continuing as the surviving entity and as a direct, wholly owned subsidiary of JMP Group LLC (the "Reorganization Transaction"). The Reorganization Transaction results in each share of currently issued and outstanding JMP Group Inc. stock being exchanged for a limited liability company interest in JMP Group LLC.

Recent Transactions

On April 3, 2013, entities sponsored by JMP Group Inc. priced a $343.8 million collateralized loan obligation (“CLO”). The senior notes offered in this transaction (the “Secured Notes”) were issued by JMP Credit Advisors CLO II Ltd., a special purpose Cayman vehicle, and co-issued in part by CLO II, a special purpose Delaware vehicle, and were backed by a diversified portfolio of broadly syndicated leveraged loans. The Secured Notes were issued in multiple tranches and are rated by Standard & Poor’s Ratings Services and, in respect of certain tranches, Moody’s Investors Service, Inc. The Secured Notes were priced with a weighted average coupon of three-month LIBOR plus 1.86%. The Company, through a wholly-owned subsidiary, retained $17.3 million of the subordinated notes of the issuer (the “Subordinated Notes”). The Subordinated Notes do not bear interest and are not rated. The transaction closed on April 30, 2013. The Company manages CLO II, and, at closing, owned approximately 72.8% of the Subordinated Notes.

In the first quarter of 2014, the Company repurchased $6.0 million of the unsecured subordinated notes from CLO II non-controlling interests, increasing the Company’s ownership from 72.8% to 98.0%. The effects of changes on the Company’s equity from net income attributable to JMP Group Inc. and the purchase of CLO II non-controlling interest are noted below.

	Year Ended December 31,		
	2014	**2013**	**2012**
Net income attributable to JMP Group Inc.	$13,352	$3,628	$2,757
Transfers from non-controlling interest			
Decrease in JMP Group Inc. paid-in capital for purchase of CLO II interest	(844)	-	-
Net transfers from non-controlling interest	(844)	-	-
Change from net income attributable to JMP Group Inc and transfers from non-controlling interest	$12,508	$3,628	$2,757

On December 11, 2013 CLO III closed on a $100.0 million warehouse credit agreement with BNP Paribas. CLO III is a special purpose vehicle whose debt, upon funding, will be secured by a diversified portfolio of broadly syndicated leveraged loans. The warehouse has a twelve month revolving period. As of December 31, 2013, CLO III held a $0.5 million loan in its portfolio; however, the entity had not yet issued asset-backed securities. Given the intent of the CLO III structure, the loan was included in the loans collateralizing asset-backed securities line item on the Consolidated Statements of Financial Condition upon inception.

In January 2014, the Company contributed an additional $15.0 million investment to CLO III, bringing its total equity in the entity to $25.0 million. The $25.0 million equity financing was used to purchase loans, prior to leveraging the existing CLO III credit warehouse held at BNP Paribas. The equity investment increased to $30.0 million in the third quarter of 2014, and the warehouse facility increased to $220.0 million. On September 30, 2014, CLO III closed the $370.5 million CLO transaction. The senior notes offered in this transaction (the “Secured Notes”) were issued by JMP Credit Advisors CLO III Ltd., and coissued in part by JMP Credit Advisors CLO III LLC, and are backed primarily by a diversified portfolio of broadly syndicated leveraged loans. The Secured Notes are subject to a two-year non-call period. The CLO has a four-year reinvestment period, through October 17, 2018, that allows for the use of the proceeds from principal repayments on, or sales of, collateral assets towards the purchase of qualifying replacement assets, subject to certain conditions and limitations. A third party and employees of JMPCA purchased subordinated notes in CLO III, reducing the Company’s investment in the subordinated notes to $4.7 million, or 13.5%. As of December 31, 2014, the Company owned 13.5% of the subordinated notes.

2. Summary of Significant Accounting Policies

Basis of Presentation

These financial statements and accompanying notes present the consolidated financial condition of the Company as of December 31, 2014 and December 31, 2013. Consolidated results of operations, stockholders’ equity and cash flows are presented for the Company for the years ended December 31, 2014, 2013 and 2012.

The consolidated accounts of the Company include the wholly-owned subsidiaries, JMP Securities, HCS, JMP Capital, JMP Credit, JMPCA, CLO III (effective December 11, 2013 through September 29, 2014) and the partially-owned subsidiaries Harvest Growth Capital LLC (“HGC”), Harvest Growth Capital II LLC (“HGC II”), HCC LLC (effective August 18, 2011 through May 2, 2013), CLO I, CLO II (effective April 30, 2013), HCAP Advisors (effective May 1, 2013), and CLO III (effective September 30, 2014). All material intercompany accounts and transactions have been eliminated in consolidation. Non-controlling interest on the Consolidated Statements of Financial Condition relate to the interest of third parties in the partly-owned subsidiaries.

The Company performs consolidation analyses on entities to identify VIEs and determine appropriate accounting treatment. An entity is considered a VIE and, therefore, would be subject to the consolidation provisions of ASC 810-10-15 if, by design, 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.

JMPCA manages CLO I, CLO II and CLO III (collectively, the “CLOs”). The Company assesses whether the CLOs meet the definition of a VIE, and whether the Company qualifies as the primary beneficiary. CLOs determined not to meet the definition of a VIE are considered voting interest entities for which the voting rights are evaluated to determine if consolidation is necessary. As of both December 31, 2013 and 2014, CLO I and CLO II were determined to be VIEs. The Company, which manages the CLOs and owns approximately 94% and 98% of the subordinated notes in CLO I and CLO II, respectively, is deemed the primary beneficiary. As a result, the Company consolidates the assets and liabilities of the CLO securitization entities, and the underlying loans owned by the CLO entities 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 5 and Note 8 for information pertaining to the loans owned and ABS issued by the CLOs, respectively.

CLO III was determined not to be a VIE as of December 31, 2013, as the entity’s equity was sufficient, the holders of the equity had the characteristics of a controlling financial interest, and the investors had proportionate voting rights. The Company assessed whether consolidation would be applicable using the voting model, with consideration to its ownership investment in CLO III, and the level of its influence. Due to JMPCA’s 100% equity stake in the CLO and its management of the vehicle, the Company consolidated CLO III in its financial statements. Upon the closing of CLO III transaction, the Company performed a consolidation analysis to determine appropriate consolidation treatment. As of September 30, 2014, CLO III was determined to be a VIE. The Company was identified as the primary beneficiary based on the ability to direct activities of CLO III through its subsidiary manager, JMP Credit Advisors, and the 13.5% ownership of the subordinated notes. As a result, the Company consolidates the assets and liabilities of CLO III, and the underlying loans owned by the CLO are shown on the Consolidated Statements of Financial Condition under loans collateralizing asset-backed securities issued and the asset-backed securities issued to third parties are shown under asset-backed securities issued.

HCS currently manages several asset management funds, which are structured as limited partnerships, and is the general partner of each. The Company assesses whether these partnerships meet the definition of a VIEs in accordance with ASC 810-10-15-14, and whether the Company qualifies as the primary beneficiary. Funds determined not to meet the definition of a VIE are considered voting interest entities for which the rights of the limited partners are evaluated to determine if consolidation is necessary. 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 HGC and HGC II, 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 HGC II. The Company accounts for its investments in these non-consolidated funds under the equity method of accounting.

The limited liability agreements of HGC and HGC II do not provide for the right of the members to remove the manager by a simple majority vote of the non-affiliated members and therefore the manager (with a minority interest in the limited liability company) is deemed to control the funds. As a result we consolidated HGC from its inception on April 1, 2010 and HGC II from its inception on October 1, 2012.

ASU 2015-2, *Amendments to Consolidation Analysis*, was issued February 2015, which amends the consolidation requirements in ASC 810, *Consolidation*. In performing the analysis under the revised amendments, the Company concluded HGC and HGC II no longer require consolidation effective January 1, 2015. HGC and HGC II will qualify as VIEs, based on the limited partners' lack of control attributed to the absence of kick-out or participating rights. As the Company has ownership percentages under 5%, the gains and losses associated with the invested ownership are considered insignificant to the funds. Therefore, the Company will not be deemed the primary beneficiary. Similar to its other asset management funds, the Company will recognize HGC and HGC II using the equity method. The adoption will result in the exclusion of purchases, sales, contributions and distributions attributed to HGC and HGC II non-controlling interests, currently reflected in the cash flow in the following line items, with the respective balances:

(In thousands)	**Year Ended December 31,**		
	2014	**2013**	**2012**
Investing Activities:			
Purchases of other investments	(15,322)	(49,792)	(23,993)
Sales of other investments	2,118	1,061	4,611
Financing Activities:			
Capital contributions from non-controlling interest holders	17,031	51,395	17,097
Distributions paid to non-controlling interest holders	(2,231)	(1,530)	(4,269)

The Company performed the consolidation analysis for HCAP Advisors, and concluded it was a VIE, based on insufficient equity at risk. As a result, the Company is considered the primary beneficiary and consolidates the assets and liabilities.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("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.

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 not likely 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, PIPE, Rule 144A private offerings and trust preferred securities offerings, and are recorded on the closing date of the transaction. Un-reimbursed 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 collectability 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.

Asset Management Fees

Asset management fees for hedge funds, hedge funds of funds, private equity funds, HCC and New York Mortgage Trust ("NYMT") 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. Base management fees for HCC LLC are calculated based on the average value of our gross assets, reduced by the amount outstanding on its credit facility with JMP Group LLC, at the end of the two most recently completed calendar quarters. Refer to Note 7 for further information relating to this credit facility. 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. Generally, 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 the Company holds a general partner investment and withdrawn at the end of the year. The incentive fees are not subject to any contingent repayments to investors or any other clawback arrangements. Incentive fees for private equity funds and HCC LLC 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. For both private equity funds and HCC LLC, fees are eliminated upon consolidation.

Asset management fees for the CLOs the Company managed through the year consisted of senior and subordinated base management fees. 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 the Company consolidates all of the CLOs, the management fees earned at JMPCA from the CLOs are eliminated upon consolidation in accordance with 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 clients, limited partner investments in private funds managed by third parties, and the investment in NYMT and HCC. Principal transaction revenues also include earnings (or losses) attributable to investment partnership interests managed 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 and HGC II, private equity funds 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 JMP Holding LLC ("JMPG Holding") and JMP Capital.

The Company's principal transaction revenues for these categories for the years ended December 31, 2014, 2013 and 2012 are as follows:

(In thousands)	**Year Ended December 31,**		
	2014	**2013**	**2012**
Equity and other securities excluding non-controlling interest	$8,443	$14,533	$7,494
Warrants and other investments	(26)	2,200	393
Investment partnerships	5,431	3,994	2,650
Total principal transaction revenues	$13,848	$20,727	$10,537

Gain on Sale, Payoff and Mark-to-market of Loans

Gain on sale, payoff and mark-to-market of loans consists of gains from the sale and payoff of loans collateralizing asset-backed securities and loans held for sale at JMP Credit, and small business loans at HCC LLC (through May 2, 2013). This line item also includes lower of cost or market adjustments arising from loans held for sale and fair value adjustments to reflect the change in portfolio investment values at HCC LLC.

Interest Income

Interest income primarily relates to income earned on loans. Interest income on loans comprises the stated coupon as a percentage of the face amount receivable as well as accretion of accretable or purchase discounts and deferred fees. Interest income is recorded on the accrual basis in accordance with the terms of the respective loans unless such loans are placed on non-accrual status.

Interest Expense

Interest expense primarily consists of interest expense incurred on asset-backed securities issued and note payable, and the amortization of bond issuance costs. 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 CLO I. See *Asset-Backed Securities Issued* below 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 of such investments.

Restricted Cash and Deposits

Restricted cash and deposits include principal and interest payments that are collateral for the asset-backed securities issued by CLOs. 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.

Restricted cash consisted of the following at December 31, 2014 and 2013:

(In thousands)	**As of December 31,**	
	2014	**2013**
Principal and interest payments held as collateral for asset-backed securities issued	$50,552	$43,249
Cash collateral supporting standby letters of credit	159	248
Proceeds from short sales	15,048	13,749
Deposit related to CLO III warehouse credit agreement	-	9,505
Deposit with clearing broker	220	150
Deposits for operating leases	1,123	1,128
Restricted Cash	$67,102	$68,029

Receivable from Clearing Broker

The Company clears customer transactions through another broker-dealer on a fully disclosed basis. At both December 31, 2014 and December 31, 2013, 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. Investment banking fees receivable which are deemed to be uncollectible are charged off and the charge-off is deducted from the allowance. The allowance for doubtful accounts related to investment banking fees receivable were five thousand and zero at December 31, 2014 and 2013, respectively.

Fair Value of Financial Instruments

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 and asset-backed securities issued, are recorded at fair value or amounts that approximate fair value.

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, third-party pricing services, 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.

For disclosure purposes, the fair values for each of the loans held at CLO I, CLO II and CLO III were calculated using third-party pricing services. The average number of third-party pricing quotes received for CLO I, CLO II and CLO III were three for each CLO as of December 31, 2014. The average number of third-party pricing quotes received for CLO I, CLO II and CLO III were three, four and three, respectively, for both December 31, 2013. Valuations obtained from third-party pricing services are considered reflective of executable prices. Data is obtained from multiple sources and compared for consistency and reasonableness.

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 and investments in private investment funds managed by third parties. 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.

In September 2009, the FASB issued amended accounting principles related to fair value measurements of investments in certain entities that calculate net asset value per share. The amended accounting principles permit, as a practical expedient, an entity to estimate the fair value of investments in certain entities using the net asset value per share of such entities. The Company estimates the fair value of its investments in private investment funds managed by third parties using the net asset value per share of those funds.

Also included in other investments are warrants on public and private common stock owned by JMP Securities and HCC LLC, private equity securities owned by HGC, HGC II and JMP Capital, investments in private companies sponsored by JMP Group LLC and JMP Capital. The warrants on public and private common stock are generally received in connection with investment banking transactions or origination of loans. 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. HCC LLC values its investments for which market quotations are readily available from an independent pricing service or at the mean between the bid and ask prices obtained from at least two brokers or dealers (if available, otherwise by a principal market maker or a primary market dealer). HCC LLC engages independent valuation providers to review the valuation of each portfolio investment that does not have a readily available market quotation at least once quarterly. The fair value of the private equity securities owned by HGC, HGC II 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 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 elected to apply the fair value option to the investments in HCC common stock, its investments in real estate funds, and its investment in a private equity fund which invests in a diversified portfolio of technology companies. The primary reason for electing the fair value option was to measure these gains on our investments on the same basis as our other equity securities, all of which are stated at fair value.

The gains on the investments in HCC, the investment in real estate funds and the private equity fund are reported in Principal Transactions in the Consolidated Statements of Operation. In 2014, the Company recorded unrealized loss of $2.4 million and net dividend income of $0.9 million on the above investment in HCC. In 2013, the Company recorded unrealized gain of $20 thousand and net dividend income of $0.5 million on the above investment in HCC. In 2013 and 2014, the Company recorded unrealized gain of $0.1 million and $0.2 million on the investments in real estate funds, respectively. In 2013 and 2014, the Company recorded unrealized gain of $1.1 million and $0.1 million on the investment in the private equity fund which invests in a diversified portfolio of technology companies.

Derivative Financial Instruments

The Company entered into a forward purchase contract to secure the acquisition of shares of a privately-held company. The contract and subsequent amendment incorporates downside protection for up to two years, for a cost basis of $5.0 million. In January 2012, the Company exchanged $5.0 million for physical custody of the shares. Beginning December 1, 2012, the Company could, at its discretion, become the beneficial and record holder of the shares. If the Company has not yet exercised its option at March 4, 2015, the shares will be assigned automatically to the Company. This contract is recorded in Other Investments in the Consolidated Statements of Financial Condition at fair value. The Company records changes in the fair value of this forward contract as unrealized gain or loss in Principal Transactions. For the year ended December 31, 2014, the Company recorded $0.6 million unrealized loss on this investment. Once the shares are in the Company’s name, the shares will be accounted for as equity securities, remaining in Other Investments in the Consolidated Statements of Financial Condition.

In 2014, the Company entered into a swaption contract to secure the acquisition of shares of a privately-held company. The Company records changes in the fair value of this derivative as unrealized gain or loss in Principal Transactions. For the year ended December 31, 2014, the Company recorded $0.1 million unrealized loss on this investment. Once the shares are in the Company’s name, the shares will be accounted for as equity securities, remaining in Other Investments in the Consolidated Statements of Financial Condition.

Fair Value Hierarchy

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 levels of fair value hierarchy:

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, as well as quasi-government agency securities, all of which are carried at fair value.

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

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

- General partner investment in funds of funds and limited partner investment in mortgage and private equity funds: determined by net asset value provided by third-party general partners;
- Warrants: JMP Securities investments determined by the Company using the Black-Scholes Options Valuation model;
- Private equity securities, forward purchase contract and swaption: HGC, HGC II and JMP Capital investment in private companies, determined by the Company using comparable public company metrics discounted for private company market illiquidity, and

The Company’s Level 3 assets consist primarily of private equity securities held by HGC, HGC II and JMP Capital. For investments acquired close to the valuation date, the Company uses the most recent purchase price to reflect the fair value of the investment. For all other investments, the Company determines fair value using a blended approach considering comparable public company metrics and comparable M&A transactions, discounted for private company market illiquidity. The Company applies the same valuation methodology to all HGC, HGC II, and JMP Capital private equity investments.

The valuations are reviewed and approved by the HGC Valuation Committee, which meets quarterly to discuss investment valuations and any significant or unusual events that have an impact on the valuation results. Fluctuations are generally driven by changes in peer public company performance, recent M&A activity, or revised financial information of the investee. The assumptions used in the valuation calculations (discounts, allocations, estimates, etc.) are assessed, with consideration to market and regulatory conditions, as well as company specific conditions, for events or circumstances that would indicate changes in the value. Peer companies are reviewed to determine whether the group selected remains appropriate, based on the market, customer, size, and growth rate.

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.”

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 sale, small business loans and loans collateralizing asset-backed securities issued. The Company has treated the loans held for investment as a single class given the small size of the respective loan portfolios as of December 31, 2014 and 2013. The classes within these portfolio segments are Asset Backed Loan ("ABL"), ABL – stretch, Cash Flow and Enterprise Value.

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, commitment or other fees. For loans held for investment, the Company establishes and maintains 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, commitment or other 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 the Company expects full principal payments may not be received. When loans are placed on non-accrual 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 non-accrual loans. The Company applies the above non-accrual 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 recorded at their fair value as of the acquisition date, which then becomes the new basis of the loans. Any unamortized deferred fees or costs that existed prior to the acquisition are written off at that date.

For those loans acquired with evidence of deterioration of credit quality since origination, the total discount from unpaid principal balance to fair value consists of a non-accretable credit discount and an accretable liquidity discount. 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 without evidence of deterioration in credit quality since origination, any difference between the Company's initial investment in the loan and its par value is recorded as a premium or discount, which is amortized or accreted into interest income as a yield adjustment over the contractual life of the loan using the effective interest method, in accordance with *ASC 310-20, Nonrefundable Fees and Other Costs*.

The Company reviews its loan portfolio at the end of each quarter to identify specific loss reserves on impaired loans or to record losses inherent in the homogenous loan portfolio. As loans collateralizing asset-backed securities issued are considered similar in nature, given the loan terms, ratings and average life expectancy, they are reviewed collectively in the quarterly assessment of loan loss reserves. Even when there are no credit losses identified in any individual loans, experience indicates there are losses inherent in the pooled loan portfolios as of the balance sheet date. The Company uses its loan loss model to estimate the unidentified losses that are inherent in the portfolio as of the balance sheet date and records provisions to its allowance for loan losses quarterly.

For loans acquired at a discount that are not accounted for under ASC 310-30, the allowance for loan losses recorded subsequent to the date of the loan acquisition is determined using the guidance in ASC 450. No allowance on these loans will be recognized until the current book value is accreted past the level of incurred loss. For loans acquired at a premium, the allowance for loan losses recorded subsequent to the date of the loan acquisition is determined in accordance with ASC 450, based on the contractual principal balances. Given the existence of the premium on these loans, the allowance recorded subsequent to acquisition is based on the Company's quarterly allowance methodology and represents losses inherent in the homogeneous loan portfolio at the balance sheet date. Accordingly, if the Company were to acquire loans at a premium during a particular period, the Company would record an allowance at the end of the quarter in which the loans were acquired.

Refer to "Allowance for Loan Losses" section below for the Company's quarterly assessment process.

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 non-accrual 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 non-accrual 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.

Restructured loans are considered a troubled debt restructuring ("TDR") if the Company, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. The Company may receive an asset from the debtor in a TDR, but the value of the asset received is typically significantly less than the amount of the debt forgiven. The Company has received equity interest in certain debtors as compensation for reducing the loan principal balance in some cases.

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 consists of two components: estimated loan losses for specifically identified loans and estimated loan losses inherent in the remainder of the portfolio. The Company’s loan portfolio consists primarily of loans made to small to middle market, privately owned companies. Loans made to these companies generally have higher risks compared to larger, publicly traded companies who have greater access to financial resources. 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. Given these considerations, the Company believes that it is necessary to reserve for estimated loan losses inherent in the portfolio.

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 CLO I at the date of acquisition by JMP Credit, and deemed impaired at that date or a subsequent date, the 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 recorded 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 CLO I 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 collectability of loans.

Loans or positions of loans that are deemed to be uncollectible are charged off and the charged-off amount is deducted from the allowance.

In determining the required allowance for loan losses inherent in the portfolio, the following factors are considered: 1) the expected loss severity rate for each class of loans, 2) the current Moody's Investors Service ("Moody's") rating and related probability of default, 3) the existing liquidity discount on the loans (when applicable), 4) internal loan ratings, and 5) loan performance.

- Expected loss severity rate for each class of loans: The Company's loans are classified as either ABL, ABL – stretch, Cash Flow or Enterprise Value. The loss severity given a default is expected to be lowest on a conforming ABL loan, because the value of the collateral is typically sufficient to satisfy most of the amount owed. For ABL – stretch loans, the loss severity given a default is expected to be higher than for a conforming ABL loan because of less collateral coverage. For Cash Flow loans, the loss severity given a default is expected to be higher than ABL stretch loans, since generally less collateral coverage is provided for this class of loans. For Enterprise Value loans, the loss severity given a default is expected to be the highest, assuming that if the obligor defaults there has probably been a significant loss of enterprise value in the business. Loss severity estimates take into consideration current economic conditions such as overall macroeconomic trends, the amount of liquidity in the market and the condition of the CLO market.

- Moody's rating and related probability of default: Moody uses factors such as, but not limited to, the borrower's leverage, use of proceeds, cash flows, growth rate, industry condition, concentration of risks, EBITDA margins and others factors. The lower the rating a loan carries, the higher the risk. Moody's publishes a probability of default for each rating class based on historical loss experience with loans of similar credit quality, and taking into consideration current economic conditions such as industry default rates, the amount of liquidity in the market and other macroeconomic trends. The higher the loan is rated, the less probability there is of a default. The Company updates the Moody's rating assigned to a loan whenever Moody's changes its rating for the loan.

- Existing liquidity discount on the loans: For non-impaired loans held at CLO I at the acquisition date, a liquidity discount was recorded to reflect the fair value of those loans. To the extent that the liquidity discount on a loan is greater than the component of the general reserve attributable to that loan, no general reserve is recorded. If the pooled reserve for a loan is greater than its liquidity discount, the amount by which it exceeds the liquidity discount will be included in the pooled reserve calculation.

- Internal loan ratings for Loans collateralizing asset-backed securities issued and Loans held for sale: The Internal Rating System is an internal portfolio monitoring mechanism allowing the Company to proactively manage portfolio risk and minimize losses. In evaluating these loans, the Company uses five account rating categories: 1 through 5. Internal ratings of 1 and 2 indicate lower risks while ratings between 3 and 5 indicate higher risks. Internal ratings are updated at least quarterly. The following describes each of the Company's internal ratings:

1	Investment exceeding expectations and/or a capital gain is expected.
2	Investment generally performing in accordance with expectations.
3	Investment performing below expectations and requires closer monitoring.
4	Investment performing below expectations where a higher risk of loss exists.
5	Investment performing significantly below expectations where the Company expects to experience a loss.

- Performance ratings:

Performing	Non-impaired loans
Non-performing	Impaired loans

Asset-Backed Securities Issued

Asset-backed securities issued (“ABS”) represent securities issued to third parties by CLO I, CLO II and CLO III (as of September 30, 2014). At the acquisition date, the ABS at CLO I were recorded at fair value, which comprised the principal balance outstanding less liquidity discount. The liquidity discount was amortized into interest expense over the original expected remaining lives of the ABS using the interest method. At the issuance date of the instrument, the Company made a policy election not to update the estimated life of the asset on a prospective basis. This conclusion established at the issuance date, was therefore fixed for the instrument.

Fixed Assets

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

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

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

Income Taxes

The Company recognizes deferred tax assets and liabilities in accordance with ASC 740, Income Taxes, and are determined based upon the temporary differences between the financial reporting and tax basis of the Company’s assets and liabilities using the tax rates and laws in effect when the differences are expected to reverse. 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 applies the accounting principles related to uncertainty in income taxes. Under the guidance, 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 authorities’ 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.

The Company's policy for recording interest and penalties associated with the tax audits or unrecognized tax benefits, if any, is to record such items as a component of income tax.

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 or other quantitative models to calculate the fair value of option awards. The quantitative models require subjective assumptions regarding variables such as future stock price volatility, dividend yield and expected time to exercise, which greatly affect the calculated values.

The fair value of restricted stock units ("RSUs") is determined based on the closing price of the underlying stock on the grant date, discounted for future dividends not expected to be paid on unvested units during the vesting period. If applicable, a liquidity discount for post-vesting transfer restrictions is also applied.

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.

Reclassification

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

3. Recent Accounting Pronouncements

ASU 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists* was issued to provide guidance on the presentation of unrecognized tax benefits and will better reflect the manner in which an entity settles at the reporting date any additional income taxes that would result from the disallowance of a tax position when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. The adoption of ASU 2013-11 on January 1, 2014 did not have a material impact on the Company's financial statement disclosures.

ASU 2014-9*, Revenue from Contracts with Customers* was issued in May 2014 to provide a more robust framework for addressing revenue issues. The provisions of this standard are effective for annual reporting periods beginning after December 15, 2016, and do not allow early adoption. The adoption of ASU 2014-9 may have an impact on the Company's financial statements; however, the extent is not yet determined.

ASU 2014-12, *Compensation—Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period* was issued to provide guidance on share-based payments with terms where a performance target that affects vesting could be achieved after the requisite service period. The provisions of this standard are effective for annual periods and interim periods within those annual periods, beginning after December 15, 2015, and allows for early adoption. The adoption of ASC 2014-12 will not impact the Company's financial statements.

ASU 2014-13, *Consolidation: Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financial Entity* was issued in August 2014 to address discrepancy in the fair value measurement of a collateralized financing entity's financial assets from the fair value of their financial liabilities even when the financial liabilities have recourse only to the financial assets. Prior to this update, there was no specific guidance on how to account for this difference. As the Company does not carry its CLOs' financial assets and liabilities at fair value, the adoption of ASU 2014-13 for annual and interim periods ending after December 15, 2015 will not impact the Company's financial statement. Given the size of the existing discrepancy between the fair value of the Company's CLOs' financial assets and liabilities, the adoption of this ASU is not anticipated to have a material impact on the Company's financial statement disclosures.

ASU 2014- 15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* was issued in August 2014 to provide guidance regarding management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern or to provide related footnote disclosures. This standard will be effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. Early application is permitted for annual or interim reporting periods for which the financial statements have not previously been issued. The adoption of ASU 2014-15 is not expected to have an impact on the Company's financial statements.

ASU 2014-16, *Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity* was issued to eliminate the use of different methods in practice and thereby reduce existing diversity in the accounting for hybrid financial instruments issued in the form of a share. For hybrid financial instruments issued in the form of a share, an entity should determine the nature of the contract by considering the economic characteristics and risks of the entire hybrid financial instrument. The existence or omission of any single term or feature does not necessarily determine the economic characteristics and risks of the host contract. This standard will be effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. The adoption of ASU 2014-16 is not expected to have an impact on the Company's financial statements.

ASU 2015-2, *Amendments to Consolidation Analysis*, was issued February 2015, which amends the consolidation requirements in ASC 810, *Consolidation*. The amendments will change the analysis that a reporting entity must perform to determine whether it should consolidate certain types of entities, and eliminate the presumption that a general partner should consolidate a limited partnership. This standard will be effective for fiscal years beginning after December 15, 2016. Early adoption is permitted. In performing the analysis under the revised amendments, the Company concluded HGC and HGC II no longer require consolidation effective January 1, 2015.

4. Fair Value Measurements

The following tables provide fair value information related to the Company's financial instruments at December 31, 2014 and 2013:

	At December 31, 2014				
(In thousands)	Carrying Value	Fair Value			
		Level 1	Level 2	Level 3	Total
Assets:					
Cash and cash equivalents	$101,362	$101,362	$-	$-	$101,362
Restricted cash and deposits	67,102	67,102	-	-	67,102
Marketable securities owned	29,466	29,466	-	-	29,466
Other investments	208,947	3,539	64,628	138,652	206,819
Loans held for investment, net of allowance for loan losses	1,997	-	-	1,734	1,734
Loans collateralizing asset-backed securities issued, net of allowance for loan losses	1,038,848	-	1,031,885	-	1,031,885
Long term receivable	860	-	-	960	960
Total assets:	$1,448,582	$201,469	$1,096,513	$141,346	$1,439,328
Liabilities:					
Marketable securities sold, but not yet purchased	$15,048	$15,048	$-	$-	$15,048
Asset-backed securities issued	1,001,137	-	992,625	-	992,625
Bond payable	94,300	-	96,017	-	96,017
Total liabilities:	$1,110,485	$15,048	$1,088,642	$-	$1,103,690

	At December 31, 2013				
(In thousands)	Carrying Value	Fair Value			
		Level 1	Level 2	Level 3	Total
Assets:					