JMP Group Inc.
Form 10-Q
May 06, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2010

OR

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

For the transition period from to

Commission File Number: 001-33448

JMP Group Inc.

(Exact name of registrant as specified in its charter)

Delaware	**20-1450327**
(State or Other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification No.)**

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

(Address of principal executive offices)

Registrant s telephone number: (415) 835-8900

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

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

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

Large accelerated filer	¨		Accelerated filer	x
Non-accelerated filer	¨	(Do not check if a smaller reporting company)	Smaller reporting company	¨

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

The number of shares of the Registrant s common stock, par value $0.001 per share, outstanding as of April 30, 2010 was 21,676,457.

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AVAILABLE INFORMATION

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

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

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

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

JMP Group Inc.

Consolidated Statements of Financial Condition

(Unaudited)

(Dollars in thousands, except per share data)

	March 31, 2010	December 31, 2009
Assets		
Cash and cash equivalents	$ 27,703	$ 75,680
Restricted cash and deposits (includes cash on deposit with clearing broker of $255 at March 31, 2010 and December 31, 2009)	37,166	36,628
Receivable from clearing broker	1,881	1,609
Investment banking fees receivable, net of allowance for doubtful accounts of $0 at March 31, 2010 and December 31, 2009	2,425	2,706
Marketable securities owned, at fair value	21,083	5,899
Incentive fee receivable	291	2,631
Other investments (of which $52,725 and $57,190 at fair value at March 31, 2010 and December 31, 2009, respectively)	56,275	59,190
Loans held for investment, net of allowance for loan losses	1,517	1,592
Loans collateralizing asset-backed securities issued, net of allowance for loan losses	343,976	327,967
Interest receivable	1,006	1,046
Fixed assets, net	1,413	1,345
Deferred tax assets	47,067	51,499
Other assets	9,689	6,929
Total assets	$ 551,492	$ 574,721
Liabilities and Equity		
Liabilities:		
Marketable securities sold, but not yet purchased, at fair value	$ 12,220	$ 1,047
Accrued compensation	4,787	43,026
Asset-backed securities issued	330,216	326,632
Interest payable	489	525
Note payable	9,045	9,045
Deferred tax liability	45,132	48,220
Other liabilities	21,055	20,575
Total liabilities	422,944	449,070
Commitments and Contingencies		
JMP Group Inc. Stockholders Equity		
Common stock, $0.001 par value, 100,000,000 shares authorized; 22,069,741 shares issued at March 31, 2010 and December 31, 2009; 21,676,457 and 21,533,583 shares outstanding at March 31, 2010 and December 31, 2009, respectively	22	22
Additional paid-in capital	126,052	126,125
Treasury stock, at cost, 393,284 and 536,158 shares at March 31, 2010 and December 31, 2009, respectively	(3,192)	(4,360)

Retained earnings (accumulated deficit)		348		(1,152)
Total JMP Group Inc. stockholders equity		123,230		120,635
Noncontrolling Interest		5,318		5,016
Total equity		128,548		125,651
Total liabilities and equity	$	551,492	$	574,721

See accompanying notes to consolidated financial statements.

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JMP Group Inc.

Consolidated Statements of Operations

(Unaudited)

(In thousands, except per share data)

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Revenues		
Investment banking	$ 5,469	$ 4,116
Brokerage	7,670	8,539
Asset management fees	2,891	8,466
Principal transactions	1,421	2,890
Gain on sale and payoff of loans	3,479	
Net dividend income	616	434
Other income	498	267
Non-interest revenues	22,044	24,712
Interest income	11,578	291
Interest expense	(8,240)	(81)
Net interest income	3,338	210
Provision for loan losses	(164)	(725)
Total net revenues after provision for loan losses	25,218	24,197
Non-interest Expenses		
Compensation and benefits	15,521	18,801
Administration	1,022	1,121
Brokerage, clearing and exchange fees	1,352	1,250
Travel and business development	920	337
Communications and technology	1,073	863
Occupancy	651	581
Professional fees	975	956
Depreciation	168	197
Other	128	4
Total non-interest expenses	21,810	24,110
Income before income tax expense	3,408	87
Income tax expense	1,388	52
Net income	2,020	35
Less: Net income attributable to noncontrolling interest	302	1
Net income attributable to JMP Group Inc.	$ 1,718	$ 34
Net income attributable to JMP Group Inc. per common share:		
Basic	$ 0.08	$ 0.00

Diluted	$ 0.08	$ 0.00
Dividends declared per common share	$ 0.01	$ 0.01
Weighted average common shares outstanding:		
Basic	21,612	20,500
Diluted	22,484	20,702

See accompanying notes to consolidated financial statements.

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JMP Group Inc.

Consolidated Statement of Changes in Equity

(Unaudited)

(In thousands)

	JMP Group Inc. Stockholders Equity						
	Common Stock		Common Treasury Stock	Additional Paid-In	Retained Earnings (Accumulated	Noncontrolling	
	Shares	Amount	Amount	Capital	Deficit)	Interest	Total Equity
Balance, December 31, 2009	22,070	$ 22	$ (4,360)	$ 126,125	$ (1,152)	$ 5,016	$ 125,651
Net income					1,718	302	2,020
Additional paid-in capital - stock-based compensation				(87)			(87)
Additional paid-in capital - excess tax benefit related to stock-based compensation				(98)			(98)
Cash dividends paid to shareholders					(217)		(217)
Purchases of shares of common stock for treasury			(790)				(790)
Reissuance of shares of common stock from treasury			1,958	112	(1)		2,069
Balance, March 31, 2010	22,070	$ 22	$ (3,192)	$ 126,052	$ 348	$ 5,318	$ 128,548

See accompanying notes to consolidated financial statements.

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JMP Group Inc.

Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Cash flows from operating activities:		
Net income	$ 2,020	$ 35
Adjustments to reconcile net income to net cash (used in) provided by in operating activities:		
Provision for doubtful accounts		4
Provision for loan losses	164	725
Accretion of deferred loan fees	(388)	(11)
Amortization of liquidity discount, net	1,249	
Gain on sale and payoff of loans	(3,479)	
Change in other investments:		
Fair value	(674)	(3,003)
Incentive fees reinvested in general partnership interests	(300)	(4,243)
Depreciation and amortization of fixed assets	168	197
Stock-based compensation expense	903	1,373
Deferred income taxes	1,343	(717)
Net change in operating assets and liabilities:		
Decrease in interest receivable	40	3
Decrease (increase) in receivables	2,349	(155)
Decrease (increase) in marketable securities	(15,184)	3,341
(Increase) decrease in restricted cash (excluding restricted cash reserved for lending activities), deposits and other assets	(14,595)	1,696
Decrease (increase) in marketable securities sold, but not yet purchased	11,173	(1,104)
Decrease in interest payable	(36)	(14)
Decrease in accrued compensation and other liabilities	(36,679)	(8,972)
Net cash used in operating activities	(51,926)	(10,845)
Cash flows from investing activities:		
Purchases of fixed assets	(236)	(25)
Purchases of other investments	(16,691)	(4,114)
Sales of other investments	21,280	3,859
Funding of loans collateralizing asset-backed securities issued	(67,540)	
Funding of loans held for investment		(2)
Sale and payoff of loans collateralizing asset-backed securities issued	34,186	
Principal payments on loans collateralizing asset-backed securities issued	26,858	
Principal payments on loans held for investment	75	9
Net change in restricted cash reserved for lending activities	10,597	
Cash transferred from consolidated subsidiary to non-consolidated hedge fund		(2,730)
Net cash provided by (used in) investing activities	8,529	(3,003)
Cash flows from financing activities:		
Proceeds from issuance of note payable		2,100
Repayment of note payable		(434)
Repayment of asset-backed securities issued	(3,475)	

Cash dividends paid to stockholders		(217)		(205)
Purchases of shares of common stock for treasury		(790)		(262)
Excess tax benefit related to stock-based compensation		(98)		
Net cash (used in) provided by financing activities		(4,580)		1,199
Net decrease in cash and cash equivalents		(47,977)		(12,649)
Cash and cash equivalents, beginning of period		75,680		46,262
Cash and cash equivalents, end of period	$	27,703	$	33,613
Supplemental disclosures of cash flow information:				
Cash paid during the period for interest	$	1,216	$	92
Cash paid during the period for taxes	$	650	$	
Non-cash investing and financing activities:				
Reissuance of shares of common stock from treasury related to vesting of restricted stock units	$	1,168	$	469

See accompanying notes to consolidated financial statements.

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JMP GROUP INC.

Notes to Consolidated Financial Statements

March 31, 2010

(Unaudited)

1. Organization and Description of Business

JMP Group Inc., together with its subsidiaries (collectively, the Company), is an independent investment banking and asset management firm headquartered in San Francisco, California. JMP Group Inc. completed its initial public offering on May 16, 2007, and also completed a corporate reorganization (the Reorganization), which is described in greater detail in the Registration Statement on Form S-1 (File No. 333-140689) (the Registration Statement) filed with the Securities and Exchange Commission (SEC) in connection with the initial public offering. The Company conducts its brokerage business through its wholly-owned subsidiary, JMP Securities LLC (JMP Securities), its asset management business through its wholly-owned subsidiary, Harvest Capital Strategies LLC (HCS), its corporate credit business through its majority-owned indirect subsidiary, JMP Credit Corporation (JMP Credit), and certain principal investments through its wholly-owned subsidiary JMP Capital LLC (JMP Capital). JMP Securities is a U.S. registered broker-dealer under the Securities Exchange Act of 1934, as amended, and is a member of the Financial Industry Regulatory Authority (FINRA). JMP Securities operates as an introducing broker and does not hold funds or securities for, or owe any money or securities to, customers and does not carry accounts for customers. All customer transactions are cleared through another broker-dealer on a fully disclosed basis. HCS is a registered investment advisor under the Investment Advisers Act of 1940, as amended, and provides investment management services for sophisticated investors in investment partnerships and other entities managed by HCS. Effective April 7, 2009, through its majority-owned subsidiary JMP Credit, the Company completed the acquisition of 100% of the membership interests of Cratos Capital Partners, LLC and its subsidiaries, including Cratos Capital Management, LLC (collectively, Cratos), a manager of collateralized loan obligations, together with certain securities of Cratos CLO I, Ltd. (the CLO).

2. Summary of Significant Accounting Policies

Basis of Presentation

These consolidated financial statements and related notes are unaudited and have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. These consolidated financial statements should be read in conjunction with the Company s consolidated financial statements and notes thereto included in its annual report on Form 10-K for the year ended December 31, 2009. These consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) that are, in the opinion of management, necessary for the fair statement of the results for the interim periods. The results of operations for any interim period are not necessarily indicative of the results to be expected for a full year.

The consolidated accounts of the Company include the wholly-owned subsidiaries, JMP Securities and HCS, the indirectly majority-owned subsidiaries, JMP Credit (effective April 7, 2009) and Harvest Mortgage Opportunities Partners (HMOP) (effective May 1, 2009), the indirectly wholly-owned subsidiary, JMP Capital, and the partially-owned subsidiaries, JMP Realty Trust (JMPRT) (through January 1, 2009) and Opportunity Acquisition Corp. (through December 31, 2009), a special purpose acquisition corporation, or SPAC , formed for the purpose of acquiring one or more businesses through a merger, capital stock exchange, stock purchase, asset acquisition, or other similar business combination. The Company was the sponsor of the SPAC. The SPAC was liquidated on December 31, 2009 with no distribution of assets to the Company or noncontrolling interest holders due to its accumulated loss. All material intercompany accounts and transactions have been eliminated in consolidation.

The Company follows the authoritative accounting guidance for the consolidation of variable interest entities (VIEs). Such guidance applies to VIEs, which are entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. When the Company enters into a transaction with a VIE, the Company determines if it is the primary beneficiary of the VIE by performing a qualitative analysis of the VIE that includes a review of, among other factors, its capital structure, contractual terms, related party relationships, the Company s fee arrangements and the design of the VIE. The Company performed this analysis for Cratos and concluded that the CLO managed by Cratos is a VIE and that JMP Credit, which owns 100% of the subordinated notes in the CLO, is deemed the primary beneficiary. As a result, the Company consolidates the assets and liabilities of the CLO securitization entity, and the underlying loans owned by the CLO entity are shown on our consolidated statements of financial condition under loans collateralizing asset-backed securities issued and the asset-backed securities (ABS) issued to third parties are shown under ABS issued.

Noncontrolling interest on the consolidated statements of financial condition at March 31, 2010 and December 31, 2009 relates to the interest of third parties in JMP Credit and HMOP, indirectly majority-owned subsidiaries consolidated on our books.

JMPRT is a real estate investment trust that was formed in June 2006. As of December 31, 2008, the Company owned 49.5% of JMPRT and certain employees owned 20.1%. Because of its ownership and management position, the Company consolidated JMPRT and recorded a noncontrolling interest through December 31, 2008. On January 2, 2009, all of the assets and liabilities within JMPRT were transferred to HMOP, a hedge fund managed by HCS. HMOP is a Delaware limited partnership organized for the purposes of investing in real estate-related assets which may include investments in residential or commercial mortgages or loans, real estate and other assets, loans and participation in

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loans of all types, other specialty mortgage products, and securities. HCS is the general partner of HMOP. Because of substantive kick-out rights, the Company, as the general partner, did not control HMOP and therefore did not consolidate HMOP from January 2, 2009 through April 30, 2009. During the quarter ended June 30, 2009, several non-affiliated limited partners redeemed their interest in HMOP, and the remaining limited partners were no longer deemed to have substantive kick-out rights. As a result, the Company consolidates HMOP in its consolidated financial statements effective May 1, 2009.

In addition to HMOP, HCS currently manages several other asset management limited partnerships and is a general partner of each. The partnership agreements for these asset management funds provide for the right of the limited partners to remove the general partners by a simple majority vote of the non-affiliated limited partners. Because of these substantive kick-out rights, the Company, as the general partner, does not control these asset management funds and therefore does not consolidate those funds. The Company s investments in these funds are accounted for under the equity method of accounting.

On January 18, 2008, JMP Group Inc. and certain unconsolidated affiliates made an investment in convertible preferred stock of New York Mortgage Trust, Inc. (NYMT), a publicly traded real estate investment trust engaged in the investment management of mortgage-backed securities and high credit quality residential adjustable rate mortgage loans. Such investment by JMP Group Inc. and affiliated entities was $20.0 million in total, comprised of $5.0 million by JMP Group Inc., $5.0 million by certain funds managed by HCS, and $10.0 million by JMPRT. JMPRT s investment in NYMT was transferred to HMOP on January 2, 2009. In addition, JMP Group Inc. invested $4.5 million in the common stock of NYMT on February 14, 2008 via a private investment in public equity (PIPE) transaction. At March 31, 2010, JMP Group Inc. owned approximately 6.3% of NYMT s common stock. In addition, JMP Group Inc. and affiliated entities collectively owned 1.0 million shares of NYMT s Series A Preferred Stock at March 31, 2010. The Series A Preferred Stock is convertible into shares of NYMT s common stock based on a conversion price of $8.00 per share of common stock, which represents a conversion rate of two and one-half (2 1 / 2) shares of common stock for each share of Series A Preferred Stock. The Series A Preferred Stock matures on December 31, 2010, at which time any outstanding shares must be redeemed by NYMT at the $20.00 per share liquidation preference. Because of its current ownership and management position, the Company does not consolidate NYMT. The Company accounts for its investment in NYMT using the fair value option. See Note 22 for the summarized financial information of NYMT.

On July 31, 2009, the Company received 100% of the membership interest in LSC III, LLC (LSC) in full satisfaction of a $2.4 million non-revolving credit note. LSC is an investment partnership and owns shares of common and preferred stock of two privately-held companies. The Company is the sole member of LSC and therefore has a controlling financial interest in LSC. As a result, the Company consolidates LSC in its consolidated financial statements effective July 31, 2009.

Use of Estimates

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

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Revenue Recognition

Investment banking revenues

Investment banking revenues consist of underwriting revenues, strategic advisory revenues and private placement fees, and are recorded when the underlying transaction is completed under the terms of the relevant agreement. Underwriting revenues arise from securities offerings in which the Company acts as an underwriter and include management fees, selling concessions and underwriting fees, net of related syndicate expenses. Management fees and selling concessions are recorded on the trade date, which is typically the day of pricing an offering (or the following day) and underwriting fees, net of related syndicate expenses, at the time the underwriting is completed and the related income is reasonably determinable. For these transactions, management estimates the Company s share of the transaction-related expenses incurred by the syndicate, and recognizes revenues net of such expense. On final settlement, typically 90 days from the trade date of the transaction, these amounts are adjusted to reflect the actual transaction-related expenses and the resulting underwriting fee. Expenses associated with such transactions are deferred until the related revenue is recognized or the engagement is otherwise concluded. If management determines that a transaction is likely not to be completed, deferred expenses related to that transaction are expensed at that time. Strategic advisory revenues primarily include success fees on closed merger and acquisition transactions, as well as retainer fees, earned in connection with advising on both buyers and sellers transactions. Fees are also earned for related advisory work and other services such as providing fairness opinions and valuation analyses. Strategic advisory revenues are recorded when the transactions or the services (or, if applicable, separate components thereof) to be performed are substantially complete, the fees are determinable and collection is reasonably assured. Private placement fees are related to non-underwritten transactions such as private placements of equity securities, private investments in public equity (PIPE), Rule 144A private offerings and trust preferred securities offerings and are recorded on the closing date of the transaction. Unreimbursed expenses associated with strategic advisory and private placement transactions, net of client reimbursements, are recorded in the Consolidated Statements of 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 consist of base management fees and incentive fees. The Company recognizes base management fees on a monthly basis over the period in which the investment services are performed. Base management fees earned by the Company are generally based on the fair value of assets under management and the fee schedule for each fund and account. Base management fees are calculated at the investor level using their quarter-beginning capital balance adjusted for any contributions or withdrawals. The Company also earns incentive fees that are based upon the performance of investment funds and accounts. Such fees are either a specified percentage of the total investment return of a fund or account or a percentage of the excess of an investment return over a specified highwater mark or hurdle rate over a defined performance period. For most funds, the highwater mark is calculated using the greatest value of a partner s capital account as of the end of any performance period, increased for contributions and decreased for withdrawals. Incentive fees are recognized as revenue at the end of the specified performance period. The performance period used to determine the incentive fee is quarterly for the hedge funds, HMOP and NYMT, and annually for the funds of hedge funds managed by HCS. Generally the incentive fees are reinvested in the investment funds in which we hold a general partner investment. The incentive fees are not subject to any contingent repayments to investors or any other clawback arrangements.

Principal transactions

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

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The Company s principal transaction revenues for these categories for the three-month periods ended March 31, 2010 and 2009 are as follows:

(In thousands)	Three Months Ended March 31, 2010	2009
Equity and other securities	$ 1,343	$ 65
Warrants and other investments	218	(79)
Investment partnerships	(140)	2,904
Total principal transaction revenues	$ 1,421	$ 2,890

Gain on Sale and Payoff of Loans

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

Interest Income

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

Interest Expense

Interest expense primarily relates to expense incurred on asset-backed securities issued and note payable. Interest expense on asset-backed securities issued is the stated coupon as a percentage of the principal amount payable as well as amortization of liquidity discount which was recorded at the acquisition date of Cratos, see *Asset-backed securities issued* for more information. Interest expense is recorded on the accrual basis in accordance with the terms of the respective asset-backed securities issued and note payable.

Cash and Cash Equivalents

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

Restricted Cash and Deposits

Restricted cash and deposits include principal and interest payments that are collateral for the asset-backed securities issued by Cratos. 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 March 31, 2010 and December 31, 2009:

(In thousands)	March 31, 2010	December 31, 2009
Principal and interest payments held as collateral for asset-backed securities issued	$ 23,806	$ 33,349
Cash collateral supporting standby letters of credit	248	1,340
Proceeds from short sales	12,220	1,047
Deposit with clearing broker	255	255
Deposits for operating leases	637	637

$	37,166	$	36,628

Receivable from Clearing Broker

The Company clears customer transactions through another broker-dealer on a fully disclosed basis. At both March 31, 2010 and December 31, 2009, the receivable from clearing broker consisted solely of commissions related to securities transactions.

Investment Banking Fees Receivable

Investment banking fees receivable include receivables relating to the Company s investment banking or advisory engagements. The Company records an allowance for doubtful accounts on these receivables on a specific identification basis. The allowance for doubtful accounts related to investment banking fee receivable was zero at both March 31, 2010 and December 31, 2009.

Fair Value of Financial Instruments

The Company adopted amended accounting principles related to fair value measurements as of January 1, 2008. The amendment establishes a consistent framework for measuring fair value in accordance with GAAP and expands disclosures with respect to fair value measurements. The amendment applies to all financial instruments that are being measured and reported on a fair value basis. This includes those items currently reported in marketable securities owned, at fair value, other investments and marketable securities sold, not yet purchased, at fair value on the consolidated statements of financial condition. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 5 of the Notes to the consolidated financial statements for the disclosures related to the fair value of our marketable securities and other investments.

Most of the Company s financial instruments, other than loans collateralizing asset-backed securities issued, loans held for investment, asset-backed securities issued and investment in HuaMei Capital Company, Inc. and Sanctuary Wealth Services LLC, are recorded at fair value or amounts that approximate fair value. See Note 4 for the description of our investments in HuaMei Capital Company, Inc. and Sanctuary Wealth Services LLC.

Marketable securities owned, other investments, excluding investments in HuaMei Capital Company, Inc. and Sanctuary Wealth Services LLC, and marketable securities sold, but not yet purchased, are classified as trading securities and stated at fair value, with related changes in unrealized appreciation or depreciation reflected in the line item principal transactions in the accompanying Consolidated Statements of Operations.

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

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

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

The Company follows the authoritative guidance included in GAAP on the fair value option which provides companies with an option 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. We elected to apply the fair value option to our investments in NYMT convertible preferred and common stock. The primary reason for electing the fair value option was to measure these investments on the same basis as our other equity securities, all of which are stated at fair value.

Dividends received during the three months ended March 31, 2010 and 2009 on NYMT stock of $0.6 million and $0.2 million, respectively, were recorded in net dividend income on our Consolidated Statements of Operations. For the three months ended March 31, 2010 and 2009, the Company recorded unrealized gains of $0.2 million and $1.2 million, respectively, on the above investments in NYMT primarily due to the improved performance of NYMT s stock during the period. The unrealized gains on our investments in NYMT are reported in Principal Transactions in the Consolidated Statements of Operations.

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Loans Held for Investment

Loans held for investment are carried at their unpaid principal balance, net of any allowance for credit losses or deferred loan origination or commitment fees. For loans held for investment, we establish and maintain an allowance for credit losses based on management s estimate of credit losses in our loans as of each reporting date. The Company records the allowance against loans held for investment on a specific identification basis. Loans are charged off against the reserve for credit losses if the principal is deemed not recoverable within a reasonable timeframe. Loan origination and commitment fees are deferred and recognized into Interest income in the Consolidated Statements of Operations over the life of the related loan. The Company does not accrue interest on loans which are in default for more than 90 days and loans which we expect full principal payments may not be received.

Loans Collateralizing Asset-Backed Securities Issued

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

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

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

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

The accrual of interest on loans is discontinued when principal or interest payments are 90 days or more past due or when, in the opinion of management, reasonable doubt exists as to the full collection of principal and/or interest. When loans are placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Any reversals of income from previous years are recorded against the allowance for loan losses. When the Company receives a cash interest payment on a non-accrual loan, it is applied as a reduction of the principal balance. Non-accrual loans are returned to accrual status when the borrower becomes current as to principal and interest and has demonstrated a sustained period of payment performance. The amortization of loan fees is discontinued on nonaccrual loans and may be considered for write-off. Depending on the terms of the loan, a fee may be charged upon a prepayment which is recognized in the period of the prepayment. Syndication and structuring fees are recognized in the period the service is completed as other income.

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 off set estimated losses inherent in the loan portfolio as of the date of the financial statements. The appropriateness of the allowance and the allowance components are reviewed quarterly. The Company s estimate of each allowance component is based on

observable information and on market and third party data that the Company believes are reflective of the underlying loan losses being estimated.

The Company provides an allowance for loans that are considered impaired. A loan is considered impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. The Company measures

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impairment of a loan based upon either the present value of expected future cash flows discounted at the loan s effective interest rate, the loan s observable market price or the fair value of the collateral securing the loan if the loan is collateral dependent, depending on the circumstances and the Company s collection strategy. For those loans held by Cratos at the date of acquisition by JMP Credit, and deemed impaired at that date or a subsequent date, allowance for loan losses is calculated considering two further factors. For loans deemed impaired at the date of acquisition if there is a further decline in expected future cash flows, this reduction is recognized as a specific reserve in 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 the carrying value is reduced and the difference is booked as provision for loan losses. If the total discount from unpaid principal balance to carrying value is larger than the expected loss at the date of assessment, no provision for loan losses is recognized.

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

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

Asset-Backed Securities Issued

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

Fixed Assets

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

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

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 based upon the temporary differences between the financial reporting and tax bases of its assets and liabilities. Valuation allowances are established when necessary to reduce the deferred tax assets when it is more likely than not that a portion or all of the deferred tax assets will not be realized.

The Company adopted the accounting principles related to uncertainty in income taxes on May 16, 2007, the date the Company became subject to federal and state income taxes. Its adoption did not have a material impact on the Company s financial condition or results of operations. 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 authority s widely understood administrative practices and precedents. If this threshold is met, the Company measures the tax benefit as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement.

Stock-Based Compensation

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

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

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

Treasury Stock

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

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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. Please see Note 21 for the effect of reclassifications on segments.

3. Recent Accounting Pronouncements

Accounting Standards Update (ASU) 2009-17, Consolidation (Topic 810): Improvements to Financial Reporting by Enterprises Involved in Variable Interest Entities. In December 2009, the Financial Accounting Standards Board (the FASB) issued ASU 2009-17 which amends the FASB Accounting Standards Codification for the issuance of FASB Statement No. 167, Amendments to FASB Interpretation No. 46(R). The amendments in this ASU replace the quantitative-based risks and rewards calculation for determining which reporting entity, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which reporting entity has the power to direct the activities of a variable interest entity that most significantly impact the entity s economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. ASU 2009-17 is effective for annual and interim periods beginning after November 15, 2009. As described below, the effective date of the above amendments was deferred for a reporting entity s interest in certain investment companies. As a result, the Company s is not required to apply the above amendments to its investments in the hedge funds and funds of funds managed by HCS. The Company s adoption of ASU 2009-17 did not have an impact on our consolidated financial position or results of operations.

ASU 2010-10, Consolidation (Topic 810): Amendments for Certain Investment Funds. In February 2010, the FASB issued ASU 2010-10 which defers the effective date of the amendments to the consolidation requirements resulting from the issuance of FASB Statement No. 167 to a reporting entity s interest in an entity that has all the attributes of an investment company or for which it is industry practice to apply measurement principles that are consistent with those followed by investment companies. The hedge funds and funds of funds managed by HCS meet the criteria to qualify for the deferral, and therefore, the Company is not required to apply the Statement No. 167 amendments to its investments in such funds. The Company s adoption of ASU 2010-10 did not have an impact on our consolidated financial position or results of operations.

ASU 2010-09, Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements. In February 2010, the FASB issued ASU 2010-09 which amends certain provisions of the current guidance, including the removal of the requirement for an SEC filer to disclose a date through which subsequent events have been evaluated in both issued and revised financial statements. The Company s adoption of ASU 2010-09 did not have an impact on our consolidated financial position or results of operations.

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

ASU 2009-16, Transfers and Servicing (Topic 860): Accounting for Transfers of Financial Assets. In December 2009, the FASB issued ASU 2009-16 which amends the FASB Accounting Standards Codification for the issuance of FASB Statement No. 166, Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140. The amendments in this ASU improve financial reporting by eliminating the exceptions for qualifying special-purpose entities from the consolidation guidance and the exception that permitted sale accounting for certain mortgage securitizations when a transferor has not surrendered control over the transferred financial assets. In addition, the amendments require enhanced disclosures about the risks that a transferor continues to be exposed to because of its continuing involvement in transferred financial assets. Comparability and consistency in accounting for transferred financial assets will also be improved through clarifications of the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting. ASU 2009-16 is effective for annual and interim periods beginning after November 15, 2009. The Company s adoption of ASU 2009-16 did not have an impact on our consolidated financial position or results of operations.

4. Marketable Securities and Other Investments

Other Investments at Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various methods including market, income and cost approaches. Based on these approaches, the Company often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable firm inputs. The Company utilizes valuation techniques that maximize the use of

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observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Company provides the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial instrument assets and liabilities carried at fair value have been classified and disclosed in one of the following three categories:

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

Level 1 primarily consists of financial instruments whose value is based on quoted market prices such as U.S. listed and OTC equity securities, 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 fund: determined by net asset value provided by third party general partners;

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

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

Equity securities: LSC investment in private companies, determined by the Company using comparable public company metrics discounted for private company market illiquidity.

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

The following tables provide fair value information related to the Company s financial assets and liabilities at March 31, 2010 and December 31, 2009:

	Assets at Fair Value as of March 31, 2010			
(In thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial instruments owned, at fair value:				
Marketable securities owned:				
Equity securities	$ 21,083	$	$	$ 21,083

Total marketable securities owned	$ 21,083	$	$	$ 21,083
Other investments:				
General partner investment in hedge funds	$	$ 28,656	$	$ 28,656
General partner investment in funds of funds			3,018	3,018
Total general partner investment in funds		28,656	3,018	31,674
Limited partner investment in private equity fund			2,544	2,544
Limited partner investment in mortgage fund			584	584
Investment in NYMT convertible preferred stock			15,000	15,000
Warrants			233	233
Private equity securities			2,690	2,690
Total other investments	$	$ 28,656	$ 24,069	$ 52,725

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(In thousands)	Assets at Fair Value as of December 31, 2009 Level 1	Level 2	Level 3	Total
Financial instruments owned, at fair value:				
Marketable securities owned:				
Equity securities	$ 5,899	$	$	$ 5,899
Total marketable securities owned	$ 5,899	$	$	$ 5,899
Other investments:				
General partner investment in hedge funds	$	$ 33,313	$	$ 33,313
General partner investment in funds of funds			2,933	2,933
Total general partner investment in funds		33,313	2,933	36,246
Limited partner investment in private equity fund			2,476	2,476
Limited partner investment in mortgage fund			1,147	1,147
Investment in NYMT convertible preferred stock			15,000	15,000
Private equity securities			2,321	2,321
Total other investments	$	$ 33,313	$ 23,877	$ 57,190

(In thousands)	Liabilities at Fair Value as of March 31, 2010 Level 1	Level 2	Level 3	Total
Financial instruments sold, but not yet purchased, at fair value:				
Marketable securities sold, but not yet purchased	$ 12,220	$	$	$ 12,220

(In thousands)	Liabilities at Fair Value as of December 31, 2009 Level 1	Level 2	Level 3	Total
Financial instruments sold, but not yet purchased, at fair value:				
Marketable securities sold, but not yet purchased	$ 1,047	$	$	$ 1,047

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The tables below provide a reconciliation of the beginning and ending balances for the assets at fair value using significant unobservable inputs (Level 3) for the three months ended March 31, 2010 and 2009.

(In thousands)	Balance as of December 31, 2009	Purchases/ (sales), net	Total gains (losses) - realized and unrealized	Transfers in/(out) of Level 3	Balance as of March 31, 2010	Unrealized gains/(losses) included in earnings related to assets still held at reporting date
General partner investment in funds of funds	$ 2,933	$	$ 85	$	$ 3,018	$ 85
Limited partner investment in private equity fund	2,476	(9)	77		2,544	77
Limited partner investment in mortgage fund	1,147	(712)	149		584	
Investment in NYMT convertible preferred stock	15,000				15,000	
Warrants			233		233	233
Private equity securities	2,321		369		2,690	369
Total Level 3 assets	$ 23,877	$ (721)	$ 913	$	$ 24,069	$ 764

(In thousands)	Balance as of December 31, 2008	Purchases/ (sales), net	Total gains (losses) - realized and unrealized	Transfers in/(out) of Level 3	Balance as of March 31, 2009	Unrealized gains/(losses) included in earnings related to assets still held at reporting date
General partner investment in funds of funds	$ 3,678	$	$ 31	$	$ 3,709	$ 31
Limited partner investment in private equity fund	2,516		(137)		2,379	(137)
Investment in NYMT convertible preferred stock	11,687	(7,791) (1)	249		4,145	249
Warrants	307		(55)		252	(55)
Total Level 3 assets	$ 18,188	$ (7,791)	$ 88	$	$ 10,485	$ 88

(1) Investment in NYMT convertible preferred stock held by JMPRT at December 31, 2008 of $7.8 million was removed from the Company s assets in connection with the transfer of JMPRT assets and liabilities to HMOP effective January 2, 2009. The Company did not consolidate HMOP in its consolidated financial statements from January 2, 2009 through April 30, 2009.

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

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

Transfers in/out of Level 3 result from changes in the observability of fair value inputs used in determining fair values for different types of financial assets. There were no transfers in/out of Level 3 during the three months ended March 31, 2010 and 2009. In addition, there were no transfers in/out of Level 1 or Level 2 during the three months ended March 31, 2010 and 2009.

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

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

Other Investments not at Fair Value

On February 13, 2009, the Company entered into a business arrangement with China Merchants Securities Co. (HK), Ltd., a securities brokerage and investment banking firm, through a $2.0 million investment in HuaMei Capital Company, Inc. (HuaMei) to expand the Company s investment banking capabilities in China. Through HuaMei, the Company intends to provide investment banking services to U.S. and Chinese companies seeking to execute cross-border transactions on both sides of the Pacific. HuaMei is a joint venture of China Merchants Securities; MVC Capital, Inc., a publicly traded business development company managed by The Tokarz Group Advisers LLC; and the HuaMei Capital founders. HuaMei has co-chief executive officers from China Merchant Securities Co. (HK), Ltd. and the Company. The Company has appointed its chairman and chief executive officer, Joseph Jolson, to serve on HuaMei s board of directors. The Company accounts for its investment in HuaMei under the equity method of accounting within other investments on the Consolidated Statements of Financial Condition. The carrying value of our investment in HuaMei was $2.0 million at March 31, 2010.

On February 11, 2010, the Company made a $1.5 million investment in Class D Preferred Units of Sanctuary Wealth Services LLC (Sanctuary). Sanctuary provides a turnkey platform that will allow independent wealth advisors to establish an independent advisory business without the high startup costs and regulatory hurdles. The Class D Preferred Units entitle the Company to receive an annual coupon of 14.0% and is convertible into equity of Sanctuary at the option of the Company prior to the maturity date, which is three years from the investment date. The Company carries its investment in Sanctuary at cost and evaluates the investment for impairment on a quarterly basis. The carrying value of the Company s investment in Sanctuary was $1.5 million at March 31, 2010.

5. Loans Held for Investment

Loans held for investment at March 31, 2010 is comprised of principal investments in the form of one loan note and advances on one non-revolving credit note commitment. At December 31, 2009, loans held for investment was comprised of principal investments in the form of two loan notes and advances on one non-revolving credit note commitments.

The loan note outstanding at March 31, 2010 is a participation interest in a loan made by JMPRT to a client during 2007. The loan is collateralized by real estate related assets, and bears interest at the rate of 20.0% per annum, payable monthly in arrears. The principal of the loan was due and payable on December 1, 2007, but was extended until September 2008 for an additional fee at the borrower s option and in connection with a partial repayment. At September 30, 2008, the loan balance of $0.8 million was in default and the Company recorded a loan loss provision of $0.4 million in the third quarter of 2008 and $0.1 million in the fourth quarter of 2009. Recovery of the loan is being sought through bankruptcy court proceedings from which the Company believes it will be able to recover at the net realizable value of the loan.

In addition, in the third quarter of 2008, the Company made a $4.2 million loan to a private commercial mortgage originator in the form of a note and warrants. The loan was placed on non-accrual status on April 1, 2009. Accordingly, the interest payments of $0.2 million received subsequent to that date were applied to the principal balance, reducing the outstanding principal balance to $4.0 million at December 31, 2009. The loan was recorded net of loan loss reserves of $3.8 million and a deferred loan fee of $0.2 million at December 31, 2009. On February 10, 2010, the loan note was converted into non-voting preferred equity of a newly formed entity which succeeded to the assets of the borrower. As of the conversion date, the Company determined the fair value of both the loan note and the non-voting preferred equity of the newly formed

entity to be zero, and therefore, recognized no gain or loss on the conversion.

The Company had also advanced as of December 31, 2008 an aggregate of $3.8 million on two non-revolving credit note commitments with an original aggregate amount of $7.0 million. In July 2009, one of the two non-revolving credit notes matured. As of the maturity date, the net carrying value of the credit note was $2.4 million. As permitted by the terms of the credit agreement, at maturity, the borrower conveyed collateral to the Company in full satisfaction of the credit note. The collateral received was the membership interest in LSC III, LLC (see Note

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4). As of March 31, 2010 and December 31, 2009, the Company had a $1.2 million and $1.3 million advance, respectively, on a $2.0 million original non-revolving commitment, $0.7 million of which expired in October 2009. The advance bears interest at rate of 16.0% per annum and is due in June 2011. As of March 31, 2010 and December 31, 2009, the Company had no remaining credit commitments.

At March 31, 2010 and December 31, 2009, $0.8 million and $4.8 million of the aggregate amount of loans held for investment were on non-accrual status, respectively.

The following table presents components of loans held for investment, net, on the Consolidated Statements of Financial Condition at March 31, 2010 and December 31, 2009:

(In thousands)	March 31, 2010	December 31, 2009
Loans held for investment	$ 2,045	$ 6,057
Allowance for loan losses	(528)	(4,285)
Deferred loan fees		(180)
Total loans held for investment, net	$ 1,517	$ 1,592

A summary of the activity in the allowance for loan losses for the three months ended March 31, 2010 and 2009 was as follows:

	Three Months Ended March 31,	
(In thousands)	2010	2009
Balance at beginning of period	$ (4,285)	$ (2,896)
Provision for loan losses		(725)
Loans charged off, net of recoveries	3,757	
Balance at end of period	$ (528)	$ (3,621)

The Company determined the fair value of loans held for investment to be $1.7 million as of March 31, 2010 and December 31, 2009 respectively, using anticipated cash flows, discounted at an appropriate market credit adjusted interest rate.

6. Loans Collateralizing Asset-backed Securities Issued

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

(In thousands)	March 31, 2010
Loans collateralizing asset-backed securities	$ 469,121
Allowance for loan losses	(2,158)
Liquidity discount	(84,771)
Credit discount	(33,119)
Deferred loan fees, net	(5,097)
Total loans collateralizing asset-backed securities, net	$ 343,976

A loan is considered to be impaired when, based on current information, it is probable that the Company will be unable to collect all amounts due in accordance with the contractual terms of the original loan agreement, including scheduled principal and interest payments. There were $59.8 million of impaired loans as of March 31, 2010, with allocated specific reserves of $1.6 million and credit discount of $33.1 million. There were $74.4 million of impaired loans as of December 31, 2009, with allocated specific reserves of $1.6 million and credit discount of $35.1

million. In addition, the Company evaluates pools of homogeneous loans based on portfolio classification and risk assessment to determine the inherent loss in these portfolios. Based on such evaluation, the Company recorded pooled reserves of $0.2 million during the three months ended March 31, 2010 on non-impaired loans.

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A summary of the activity in the allowance for loan losses for the three month ended March 31, 2010 is as follows:

(In thousands)	Three Months Ended March 31, 2010
Balance at beginning of period	$ (1,994)
Provision for loan losses:	
Specific reserve	
Pooled reserve	(164)
Reversal due to sale, payoff or repayment of loans	
Balance at end of period	$ (2,158)

Loans recorded upon the acquisition of Cratos at fair value reflect a liquidity discount and a credit discount. In addition, most loans purchased subsequent to the acquisition were purchased at discount to their principal value, reflecting deferred loan fees. The tables below summarize the activity in the loan principal, liquidity discount, credit discount and deferred fees for the impaired loans and non-impaired loans for the three months ended March 31, 2010:

Impaired loans:

	Three Months Ended March 31, 2010				
(In thousands)	Principal	Allowance for Loan Losses	Liquidity Discount	Credit Discount	Carrying Value, Net
Balance at beginning of period	$ 74,369	$ (1,581)	$ (18,411)	$ (35,105)	$ 19,272
Purchases / funding	426				426
Repayments	(3,087)			155	(2,932)
Accretion of discount			318		318
Provision for loan losses					
Sales and payoff					
Transfers to/from non-impaired loans, net	(11,869)		5,286	1,831	(4,752)
Balance at end of period	$ 59,839	$ (1,581)	$ (12,807)	$ (33,119)	$ 12,332

Non-impaired loans:

	Three Months Ended March 31, 2010				
(In thousands)	Principal	Allowance for Loan Losses	Liquidity Discount	Deferred Loan Fees	Carrying Value, Net
Balance at beginning of period	$ 387,090	$ (413)	$ (73,133)	$ (4,849)	$ 308,695
Purchases / funding	68,266			(1,152)	67,114
Repayments	(23,926)				(23,926)
Accretion of discount			5,492	388	5,880
Provision for loan losses		(164)			(164)
Sales and payoff	(34,753)		3,530	516	(30,707)
Transfers to/from impaired loans, net	12,605		(7,853)		4,752
Balance at end of period	$ 409,282	$ (577)	$ (71,964)	$ (5,097)	$ 331,644

The Company determined the fair value of loans collateralizing asset-backed securities to be $406.6 million and $374.5 million as of March 31, 2010 and December 31, 2009, respectively, using anticipated cash flows, discounted at an appropriate market credit adjusted interest rate.

At March 31, 2010 and December 31, 2009, $59.8 million and $74.4 million of the aggregate principal amount of loans collateralizing asset-backed securities were on non-accrual status. The Company did not recognize any interest income, other than the accretion of liquidity discounts, for 10 impaired loans with a weighted average loan balance of $71.3 million that were on non-accrual status during the three months ended March 31, 2010.

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7. Fixed Assets

At March 31, 2010 and December 31, 2009, fixed assets consisted of the following:

(In thousands)	**March 31, 2010**	**December 31, 2009**
Furniture and fixtures	$ 1,633	$ 1,620
Computer and office equipment	3,981	3,771
Leasehold improvements	2,387	2,374
Software	540	540
Less: accumulated depreciation	(7,128)	(6,960)
Total fixed assets, net	$ 1,413	$ 1,345

Depreciation expense was $0.2 million for both the three months ended March 31, 2010 and 2009.

8. Note Payable

Note payable consists of the revolving and term loans related to the Company s credit facility with City National Bank (the Lender) entered into on August 3, 2006. The Company had a revolving loan of $2.1 million and a term loan of $6.9 million outstanding at both March 31, 2010 and December 31, 2009.

On December 31, 2008, the Company entered into Amendment Number Three to Credit Agreement (the Third Amendment), which amends certain provisions of the Credit Agreement, dated as of August 3, 2006, by and between the Company and the Lender, as amended by Amendment Number One to Credit Agreement, dated as of December 17, 2007 and as further amended by Amendment Number Two to Credit Agreement, dated as of March 27, 2008 (collectively, the Credit Agreement).

The Third Amendment converted the Company s outstanding revolving loans of $8.7 million into a single term loan as of December 31, 2008. The term loan will be repaid in equal quarterly payments of $0.4 million which commenced on March 31, 2009 and continues through December 31, 2013 and bears interest at the prime rate or LIBOR plus 2.25%. The Third Amendment also provided that of the original $30.0 million revolving line of credit, $21.0 million remains available under the revolving portion of the Credit Agreement and the annual interest rate provisions of the Credit Agreement are increased from the prime rate minus 1.25% to the prime rate and from LIBOR plus 1.25% to LIBOR plus 2.25%. The Lender will continue to provide revolving loans of up to $21.0 million through December 31, 2010, on which date the then existing revolving loans will convert into term loans.

The Company had undrawn amounts of $18.9 million under the revolving line of credit with the Lender at March 31, 2010 and December 31, 2009. Each draw bears interest at the prime rate or LIBOR plus 2.25%.

The following table shows the repayment schedules for the principal portion of the term loan at March 31, 2010:

(In thousands)	**March 31, 2010**
2010	$ 1,736
2011	1,736
2012	1,736
2013	1,737
2014	
Thereafter	
	$ 6,945

The Credit Agreement contains financial and other covenants, including, but not limited to, limitations on debt, liens and investments, as well as the maintenance of certain financial covenants. A violation of any one of these covenants could result in a default under the facility, which

would permit the bank to terminate our note and require the immediate repayment of any outstanding principal and interest. The Third Amendment modified the financial covenants in the Credit Agreement to remove both the minimum requirement of Net Income (as defined in the Credit Agreement) and the minimum requirement of EBITDA (as defined in the Credit Agreement). The Third Amendment also removed the Fixed Charge Coverage Ratio (as defined in the Credit Agreement) and added a new financial covenant regarding the Company s liquidity. At March 31, 2010, the Company was in compliance with the loan covenants. The term loan is collateralized by a pledge of the Company s assets, including its interests in each of JMP Securities and HCS.

9. Asset-backed Securities Issued

On May 17, 2007, the CLO completed a $500.0 million aggregate principal amount of notes (the Notes) on-balance sheet debt securitization and obtained $455.0 million of third-party financing. The Notes will be repaid from the cash flows generated by the loan portfolio owned by the CLO. The Notes were issued in seven separate classes as set forth in the table below. The Company owns all of the unsecured subordinated notes and $13.7 million of Class C, D and E notes. These unsecured subordinated notes and the Class C, D and E notes owned by the Company are eliminated upon consolidation of JMP Credit, and therefore, are not reflected on the Company s consolidated statement of financial condition at March 31, 2010 and December 31, 2009.

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(In millions)	Notes Originally Issued	Outstanding Principal Balance March 31, 2010	Liquidity Discount March 31, 2010	Net Outstanding Balance March 31, 2010	Interest Rate Spread to LIBOR	Ratings (Moody s/ S&P) (1)
Class A Senior Secured Floating Rate Revolving Notes due 2021	$ 326.0	$ 315.7	($ 35.8)	$ 279.9	0.26% 0.29%	Aaa/AAA
Class B Senior Secured Floating Rate Notes due 2021	30.0	30.0	(8.9)	21.1	0.50%	Aa2/AA
Class C Senior Secured Deferrable Floating Rate Notes due 2021	35.0	35.0	(21.3)	13.7	1.10%	Baa1/A
Class D Secured Deferrable Floating Rate Notes due 2021	34.0	34.0	(21.1)	12.9	2.40%	Ba1/BBB
Class E Secured Deferrable Floating Rate Notes due 2021	30.0	30.0	(20.1)	9.9	5.00%	B3/CCC-
Total secured notes sold to investors	$ 455.0	$ 444.7	($ 107.2)	$ 337.5		
Unsecured subordinated notes due 2021	45.0	45.0	(39.9)	5.1		
Total notes for the CLO I offering	$ 500.0	$ 489.7	($ 147.1)	$ 342.6		
Consolidation elimination	N/A	(58.7)	46.3	(12.4)		
Total asset-backed securities issued	N/A	$ 431.0	($ 100.8)	$ 330.2		

(1) These ratings are unaudited and were the current ratings as of March 31, 2010 and are subject to change from time to time.
The secured notes and subordinated notes are limited recourse obligations payable solely from cash flows of the CLO loan portfolio and related collection and payment accounts pledged as security. Payment on the Class A-1 notes rank equal, or pari passu, in right of payment with payments on the Class A-2 notes and payment on the Class A-1 and Class A-2 notes rank senior in right of payment to the other secured notes and the subordinated notes. Payment on the Class B, Class C, Class D and Class E notes generally rank subordinate in right of payment to any other class of notes which has an earlier alphabetical designation. The subordinated notes are subordinated in right of payment to all other classes of notes and will not accrue interest. Interest on the secured notes is payable quarterly at a per annum rate equal to LIBOR plus the applicable spread set forth in the table above. Payment of interest on the Class C, Class D and Class E notes is payable only to the extent proceeds are available therefore under the applicable payment priority provisions. As of March 31, 2010, all interest on the secured notes was current. To the extent proceeds are not so available, interest on the Class C, Class D and Class E notes will be deferred. The CLO is also required to pay a commitment fee of 0.18% on the unused portion of the funding commitments of the Class A-1 notes. The secured notes are secured by the CLO loan portfolio and the funds on deposit in various related collection and payment accounts. The terms of the debt securitization subject the loans included in the CLO loan portfolio to a number of collateral quality, portfolio profile, interest coverage and overcollateralization tests. Total interest expense related to the asset-backed securities issued for the three months ended March 31, 2010 was $8.2 million, which comprised cash coupon of $1.1 million and liquidity discount amortization of $7.1 million. As of March 31, 2010 and December 31, 2009, accrued interest payable on the Notes was $0.5 million.

The Notes recorded upon the acquisition of Cratos at fair value reflect a liquidity discount. The activity in the note principal and liquidity discount for the three months ended March 31, 2010 comprised the following:

	Three Months Ended March 31, 2010		
(In thousands)	Principal	Liquidity Discount	Net
Balance at beginning of period	$ 434,478	$ (107,846)	$ 326,632
Repayments	(3,475)		(3,475)
Amortization of discount		7,059	7,059
Balance at end of period	$ 431,003	$ (100,787)	$ 330,216

The Company determined the fair value of asset-backed securities issued to be $368.3 million and $361.1 million as of March 31, 2010 and December 31, 2009, respectively.

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10. Stockholders Equity

Stock Repurchase Program

The Company s board of directors authorized in August and November 2007 a 1.5 million share repurchase program, which was fully executed as of January 18, 2008. On March 10, 2008 and March 3, 2009, the Company s board of directors authorized the repurchase of an additional 2.0 million shares during the subsequent eighteen months and the repurchase of an additional 0.5 million shares during the subsequent twelve months, respectively. During the three months ended March 31, 2010 and 2009, the Company repurchased 98,428 and 57,832 shares, respectively, of the Company s common stock at an average price of $8.03 per share and $4.53 per share, respectively, for an aggregate purchase price of $0.8 million and $0.3 million, respectively. All of the shares repurchased during the three months ended March 31, 2010 and 30,372 of the shares repurchased during the three months ended March 31, 2009 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.

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

11. Stock-Based Compensation

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

Stock Options

The following table summarizes the stock option activity for the three months ended March 31, 2010:

	Three Months Ended March 31, 2010	
	Shares Subject to Option	Weighted Average Exercise Price
Balance, beginning of year	1,938,315	$ 11.28
Granted		
Exercised		
Forfeited		
Expired	(69,250)	12.17
Balance, end of period	1,869,065	$ 11.25
Options exercisable at end of period	1,856,565	$ 11.24

As of March 31, 2010

Range of Exercise Prices	Options Outstanding: Number Outstanding	Options Outstanding: Weighted Average Remaining Contractual Life in Years	Options Outstanding: Weighted Average Exercise Price	Options Outstanding: Aggregate Intrinsic Value	Options Vested and Exercisable: Number Exercisable	Options Vested and Exercisable: Weighted Average Remaining Contractual Life in Years	Options Vested and Exercisable: Weighted Average Exercise Price	Options Vested and Exercisable: Aggregate Intrinsic Value
$10.00 $12.50	1,869,065	4.71	$ 11.25	$	1,856,565	4.72	$ 11.24	$

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The Company recognizes stock-based compensation expense for stock options over the graded vesting period of the options using the accelerated attribution method. The Company recognized compensation expense related to stock options of $1,468 and $5,278 for the three months ended March 31, 2010 and 2009, respectively.

As of March 31, 2010, there was $1,876 of unrecognized compensation expense related to stock options expected to be recognized over a weighted average period of 0.34 years.

Restricted Stock Units

Under the JMP Group 2007 Equity Award Plan, the Company has granted restricted stock units (RSUs) to employees and non-employee directors at no cost to the recipient. An RSU entitles the recipient to receive a share of common stock after the applicable restrictions lapse. These awards are generally subject to vesting schedules and continued employment with the Company. Some of these awards are also subject to post vesting lockup restrictions. In the event of a change in control or corporate transactions, or if the vesting of all or certain of the RSUs are otherwise accelerated, the RSUs will vest immediately prior to the effective date of such an event.

On February 4, 2010, the Company granted 905,628 RSUs to certain employees for long term incentive purposes. These units have Company performance-based vesting conditions and will vest when the Company performance target set for such RSUs is met. The maximum aggregate fair value of this grant, assuming the highest level of performance conditions is probable, was $7.2 million based on the market value of the underlying stock on grant date.

On February 16, 2010, as a part of the 2009 annual compensation program, the Company granted 131,341 restricted shares to certain employees. These shares vested immediately with a two-year restricted period during which the holders are subject to non-competition, non-solicitation and certain other covenants. Fifty-percent of such holders shares will be released from restriction on each of December 31, 2010 and 2011.

The following table summarizes the RSU activity for the three months ended March 31, 2010:

	Three Months Ended March 31, 2010	
	Restricted Stock Units	Weighted Average Grant Date Fair Value
Balance, beginning of year	1,392,551	$ 9.59
Granted	897,921	7.96
Vested	(109,961)	9.01
Forfeited	(34,013)	8.30
Balance, end of period	2,146,498	$ 8.96

The aggregate fair value of RSUs vested during the three months ended March 31, 2010 was $0.9 million.

The Company recognizes compensation expense over a graded vesting period using the accelerated attribution method. For the three months ended March 31, 2010 and 2009, the Company recorded compensation expense of $0.7 million and $1.0 million, respectively, related to RSUs awarded in connection with the initial public offering. In addition, for the three months ended March 31, 2010 and 2009, the Company recorded compensation expense of $0.2 million and $0.4 million, respectively, for RSUs granted after the initial public offering. The Company recognized income tax benefits related to RSUs of $0.4 million and $0.6 million for the three months ended March 31, 2010 and 2009, respectively. As of March 31, 2010, there was $3.3 million of unrecognized compensation expense related to RSUs expected to be recognized over a weighted average period of 1.99 years.

12. Net Income (Loss) per Share of Common Stock

Basic net income (loss) per share for the Company is calculated by dividing net income (loss) by the weighted average number of common shares outstanding for the reporting period. Diluted net income (loss) per share is calculated by adjusting the weighted average number of outstanding shares to reflect the potential dilutive impact as if all potentially dilutive stock options or RSUs were exercised or converted under

the treasury stock method. However, for periods that we have a net loss the effect of outstanding stock options or RSUs is anti-dilutive and, accordingly, is excluded from the calculation of diluted loss per share.

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The computations of basic and diluted net income per share for the three months ended March 31, 2010 and 2009 are shown in the tables below:

(In thousands, except per share data)	Three Months Ended March 31, 2010	2009
Numerator:		
Net income	$ 1,718	$ 34
Denominator:		
Basic weighted average shares outstanding	21,612	20,500
Effect of potential dilutive securities:		
Restricted stock units	872	202
Diluted weighted average shares outstanding	22,484	20,702
Net (loss) income per share		
Basic	$ 0.08	$ 0.00
Diluted	$ 0.08	$ 0.00

Stock options to purchase 1,902,694 and 2,084,421 shares of common stock for the three months ended March 31, 2010 and 2009, respectively, were anti-dilutive and, therefore, were not included in the computation of diluted weighted-average common shares outstanding. Restricted stock units for zero and 1,505,429 shares of common stock for the three months ended March 31, 2010 and 2009, respectively, were anti-dilutive and, therefore, were not included in the computation of diluted weighted-average common shares outstanding.

13. Employee Benefits

All salaried employees of the Company are eligible to participate in the JMP Group 401(k) Plan after three months of employment. Participants may contribute up to the limits set by the United States Internal Revenue Service. There were no contributions by the Company during the three months ended March 31, 2010 and 2009.

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14. Income Taxes

The Company is subject to U.S. federal and state income taxes. For the three months ended March 31, 2010 and 2009, the Company recorded a total tax expense of $1.4 million and $0.1 million, respectively.

The components of the Company s income tax expense for the three months ended March 31, 2010 and 2009 are as follows:

(In thousands)	**Three Months Ended March 31, 2010**	**2009**
Federal	$ 54	$ 591
State	(9)	178
Total current income tax expense	45	769
Federal	1,063	(550)
State	280	(167)
Total deferred income tax expense (benefit)	1,343	(717)
Total income tax expense	$ 1,388	$ 52

A reconciliation of the statutory U.S. federal income tax rate to the Company s effective tax rate for the three months ended March 31, 2010 and 2009 are as follows:

	Three Months Ended March 31, 2010	**2009**
Tax at federal statutory tax rate	35.00%	35.00%
State income tax, net of federal tax benefit	5.75%	5.75%
Adjustment for permanent items	0.81%	19.43%
Rate before one-time events	41.56%	60.18%
Deferred tax asset written off related to options and RSUs	0.00%	0.66%
Adjustment for prior year taxes	0.00%	-0.14%
California state enterprise zone tax credit	-0.83%	
Effective tax rate (benefit)	40.73%	